Stantec

One Team. Infinite Solutions.

Stantec Inc.
2006 ANNUAL REPORT

Table of Contents

Stantec, founded in 1954, provides professional design and consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying, and project management. Continually striving to balance economic, environmental, and social responsibilities, we are recognized as a world-class leader and innovator in the delivery of sustainable solutions. With a roster of comprehensive services, our Company supports clients at every stage, from initial concept and financial feasibility to project completion and beyond. Our multidisciplinary practice areas serve public and private sector clients in a diverse range of markets.

In simple terms, the world of Stantec is the water we drink, the roadways we travel, the buildings we visit, the industries in which we work, and the neighborhoods we call home.

Stantec's services are offered through more than 6,000 employees operating out of over 80 locations in North America and the Caribbean. Stantec trades on the Toronto Stock Exchange under the symbol STN and on the New York Stock Exchange under the symbol SXC.

One Team. Infinite Solutions.

Sustainable

Integrated

Infrastructure

Architecture

Engineering

Planning

Landscape Architecture

Environment

Transportation

Health Care

Education

Urban Land

Bio/Pharm

Aviation

Retail

Transit

Renewable Energy

Survey

Industrial

Traffic

Water

Residential

Financial Summary

In thousands of Canadian dollars, except per share amounts and ratios	2006	2005	2004	2003	2002
Gross revenue	**816,133**	618,020	520,879	459,942	428,456
Net revenue	**707,927**	524,552	449,151	391,396	365,148
Income before taxes	**89,424**	62,500	44,660	39,628	33,095
Net income	**60,182**	40,622	30,190	25,070	20,192
Current assets	**262,836**	280,371	208,755	177,629	163,261
Current liabilities	**155,702**	157,814	126,755	127,047	99,295
Property and equipment	**65,009**	58,519	48,262	67,670	51,747
Long-term debt	**12,046**	81,886	21,155	31,159	41,730
Shareholders' equity	**410,895**	348,053	189,056	160,528	151,426
Gross revenue backlog	**685,000**	588,000	380,000	310,380	299,801
Net cash (bank indebtedness) position	**28,363**	28,143	37,890	(9,808)	29,202
Earnings per share – basic	**1.34**	1.02	0.82	0.68	0.56
Earnings per share – diluted	**1.31**	0.99	0.79	0.66	0.54
Current ratio	**1.69**	1.78	1.65	1.40	1.64
Debt to equity ratio	**(0.03)**	0.17	(0.02)	0.34	0.22
Weighted average number of shares outstanding	**45,068,266**	39,840,234	36,999,196	36,659,920	35,974,716
Shares outstanding	**45,201,785**	44,626,262	37,742,170	36,654,568	36,656,440
Shares traded	**24,864,000**	17,911,000	11,471,000	10,326,000	9,106,000
TSX:					
High	**25.84**	20.20	14.70	11.74	10.25
Low	**18.50**	12.25	10.18	7.25	6.44
Close	**25.25**	19.88	13.24	11.05	8.35
NYSE [1]:					
High	**22.55**	17.25	–	–	–
Low	**16.33**	14.70	–	–	–
Close	**21.74**	17.05	–	–	–

All references to common shares and per share amounts in this financial summary have been restated to reflect the two-for-one stock split approved on May 4, 2006.

[1] Stantec began trading on the New York Stock Exchange (NYSE) on August 5, 2005.

53

years of uninterrupted profitability

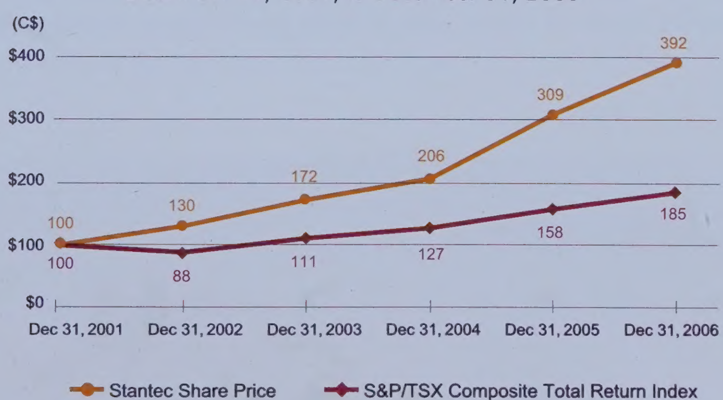
48%

increase in net income in 2006

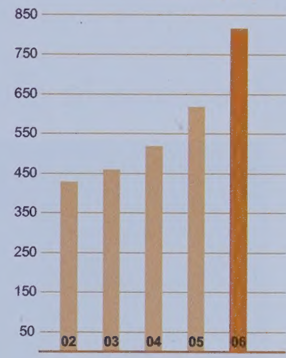
2006 Financial Highlights

- Increased our gross revenue 32.1% to $816.1 million from $618.0 million in 2005, with net revenue increasing 35.0% to $707.9 million, net income increasing 48.2% to $60.2 million, and diluted earnings per share increasing 32.3% to $1.31
- Increased our consolidated backlog revenue to $685 million from $588 million in 2005
- Completed a two-for-one stock split, making it easier for investors to purchase board lots of our shares
- Achieved key growth objectives—the foundation of a new region in New England; the expansion of our operations into Florida and Texas; and the enhancement of our service offerings in the electrical, environmental, transportation, control and communications systems, and energy and resources engineering disciplines
- Increased our total staff number to over 6,000 through internal hiring as well as the integration of three firms
- Celebrated our addition to the S&P/TSX Composite Index, a list of the largest companies on the Toronto Stock Exchange as measured by market capitalization

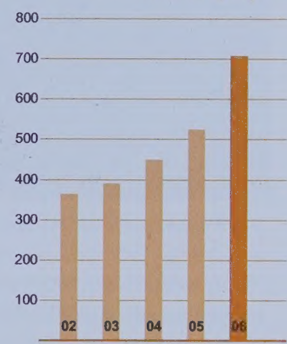
Cumulative Return on
$100 Investment Assuming Reinvestment of Dividends
December 31, 2001, to December 31, 2006



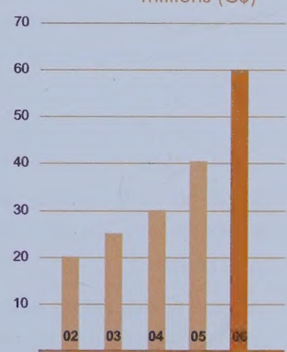
Gross Revenue
millions (C$)



Net Revenue
millions (C$)

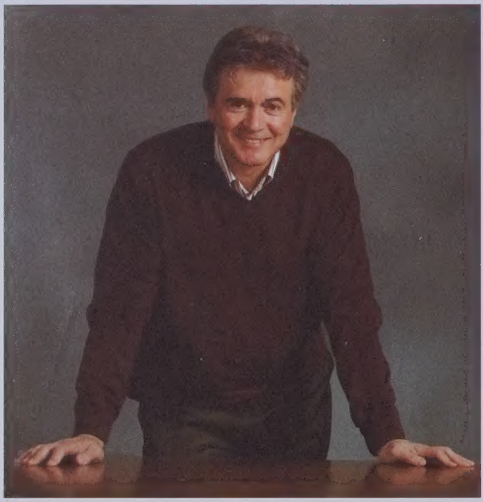


Net Income
millions (C$)



EPS ■ Basic ■ Diluted

Message to Shareholders



Tony Franceschini, P.Eng., President & CEO

In 2006 Stantec continued its perfect record of uninterrupted profitability, marking 53 successful years. Once again, we demonstrated that we are a company that delivers on its long-term plan with record results. Gross revenue increased to $816.1 million, up 32.1% from 2005; net revenue increased to $707.9 million, up 35.0%; net income increased to $60.2 million, up 48.2%; and diluted earnings per share increased to $1.31, up 32.3%. This excellent performance contributed to a 27% increase in share price in 2006. In all respects, 2006 was truly a good year and a year that further positioned us for the next stage of our evolution.

Our performance is particularly noteworthy considering the operational challenges we faced during the year. We successfully integrated approximately 1,300 staff—the largest group ever—into our team from The Keith Companies and Keen Engineering, which joined our organization in late 2005, and from Carinci Burt Rogers, Dufresne-Henry, and ACEx, which joined us in early 2006. We allocated resources to streamlining and improving our US East operations to bring this group closer in performance to our more mature and successful operations in Canada and the US West. We responded to unprecedented growth opportunities in Alberta, our home province. And we improved our work-sharing practices to make better use of staff in offsetting local and regional reductions in project workloads in some of our practice areas. All the while, we continued to execute the fundamentals of our business model by delivering high-quality project solutions to our clients.

We were able to achieve our integration goals so quickly and effectively in 2006 because we—professional staff, technical staff, and support personnel together—have created a nurturing "One Team" culture that embraces change and welcomes new colleagues and their attributes. In this environment, every acquisition is a true merging of talents, skills, leadership, and expertise, and we each play a vital role in helping new staff become part of the Stantec family.

Our consistent performance and financial success enable us to continue to follow a sustainable business strategy that centers on long-term growth while mitigating risk for our shareholders. Focused on the infrastructure and facilities professional services sector, Stantec's business model is based on three key strategic drivers: diversifying our operations across different geographic regions, specializing in distinct but complementary practice areas, and providing professional services during all five phases of the infrastructure and facilities project life cycle. Growth is achieved by strengthening or adding to our geographic locations, practice areas, or services in different life cycle phases.

Stantec's current vision—which we established in 1998—is to become a top 10 global design firm by the year 2008. Being a top 10 firm means working on the best projects for the best clients and attracting and retaining the best employees. To achieve this objective, we will continue to pursue excellence in design and project delivery and to follow an orderly growth plan. Our strategy is to increase our geographic reach in North America and selected international markets, where we see the potential to grow new regions and develop new markets for our services.

We are confident that we can reach our goal because our financial condition is healthy and liquid and we have a strong balance sheet with a sustainable level of debt. Of the $160 million line of credit in our revolving credit facility, $149.9 million was available at year-end for investments and other purposes. This financial strength gives us the flexibility to continue to pursue our growth plan.

Yet however much growth is part of our Company's story, our passion is delivering high-quality project solutions to our clients. By truly working as one team with expertise in many specialist practice areas and disciplines across North America and the Caribbean, we are able to provide an infinite number of sustainable solutions—solutions that have a positive impact on our world—to both public and private sector clients in our industry. Accordingly, in this annual report, we have chosen to highlight our "One Team. Infinite Solutions." approach to client service.

For example, as the leader of an infrastructure design team, we prepared the public realm urban design and site servicing plan for Southeast False Creek, a 36-hectare (80-acre) mixed-use "green" community (which will include the Athletes Village for the 2010 Winter Olympics) being developed on a reclaimed industrial site in Vancouver, British Columbia. The project brought together our expertise in project management; urban design; and civil, structural, electrical, and mechanical engineering. We also developed an energy supply and conservation strategy along with designing a district heating distribution system for the community. In Klickitat County, Washington, staff from our Portland, Oregon, and Edmonton, Alberta, offices came together to provide consulting and design services for the development of a 133-turbine wind farm. In Winnipeg, Manitoba, our Buildings and Environment groups teamed up to serve as the prime consultant, providing all civil, mechanical, electrical, and structural engineering services as well as architecture and project management, for a major expansion of the South End Water Pollution Control Centre.

And in High Point, North Carolina, we contributed a full complement of services—architecture; interior design; surveys/geomatics; and mechanical, electrical, structural, plumbing, fire protection, and civil engineering—to the development of a new Truliant Federal Credit Union branch. These are only a few examples of the infinite solutions we can provide.

As we grow and mature, we remain committed to maintaining a strong corporate governance structure with clearly defined roles and responsibilities for our board of directors and management. Our board of directors is dedicated to upholding the ideals of good governance and transparent accounting and to delivering long-term value to our shareholders. To this end, I would like to take this opportunity to pay tribute to Jack Finn, an exemplary, knowledgeable director who is retiring from our board at our 2007 annual and special meeting following almost 12 years of dedicated service. I am grateful for the wise counsel and extensive business experience he has contributed to the success of our Company. At the same time, I look forward to working with Ivor Ruste, vice president of finance for EnCana Corporation, who joined our board February 21, 2007. His financial expertise and general business acumen make him an excellent addition to the board.

In closing, I wish to extend my sincere appreciation to our employees for their tremendous contributions to our success in 2006. Without their passion, ingenuity, and simply hard work, we could not have achieved our record performance. And to our board of directors, clients, and shareholders, thank you as always for your confidence and support.

Tony Franceschini, P.Eng.
President & CEO

One Team. Infinite Solutions.

Business

At Stantec we are one company working together as a team. By integrating our expertise in planning, engineering, architecture, interior design, landscape architecture, surveying, economics, and project management across North America and the Caribbean, we provide our clients with an infinite number of solutions—from health care solutions to pavement performance solutions to renewable energy solutions, to name only a few—solutions that help improve the quality of life in our world.

Our "One Team. Infinite Solutions." philosophy permeates every aspect of our daily practices and operations: indeed, it is the essence of our work culture. We value cooperation, take pride in each other's achievements, and treat each other with trust and respect. We know that with passion, determination, and teamwork, we can attain our goals.

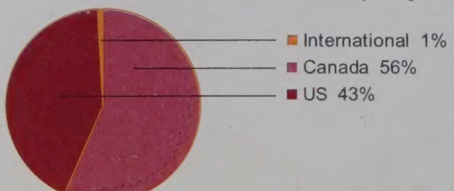
Teamwork is the foundation of our business model. Focused on the infrastructure and facilities sector, our model works by providing services through teams across diverse geographic regions, distinct but complementary practice areas, and all phases of the infrastructure project life cycle. This three-dimensional, sustainable approach ensures that we do not have to depend on any single geographic region, practice area, or life cycle phase for our business, thus helping us mitigate risk while continuing to increase our revenue and earnings. We currently operate in four broad geographic regions—Canada, the US East, the US West, and the Caribbean—made up of 14 smaller subregions. In total, we have offices in five provinces and 21 states as well as Barbados and Puerto Rico. We also undertake projects in selected areas around the world. We provide services in 13 distinct specialist practice areas grouped into five broad categories—Buildings, Environment, Industrial & Project Management, Transportation, and Urban Land. And we offer specialized services during the five project life cycle phases—planning, design, construction, maintenance, and decommissioning.

Functioning as one team providing infinite solutions means that we collaborate on projects not only within individual offices and practice areas but also between offices, practice areas, regions, and countries. It also means that we can share work across the Company when faced with changes in demand for our services in the regions or practice areas in which we operate. We are able to share our skills and expertise across borders and time zones because we have implemented robust information technology systems and processes that are specifically designed to support teamwork. From Guaynabo, Puerto Rico, to Walnut Creek, California, and beyond, these tools are accessible 24/7 via the Web. For example, we manage projects, financial information, human resources, and business intelligence around the clock through our Web-based enterprise management system. In addition, web site hosting environments give us fast, secure communication at a distance, and integrated software programs and technology enable us to distribute information, plans, calculations, and designs from office to office across our wide area network.

We have adopted the "One Team. Infinite Solutions." operating philosophy because we believe that we execute our projects, our business strategy, and our goals

16%
return on equity

2006 Gross Revenue by Region



better when we plan, design, manage, make decisions, and act together. In everything we do, we aim to achieve "brilliant execution" to create uncompromising value for our clients and shareholders.

Because we are deeply committed to sustainability, brilliant execution includes delivering on the triple bottom line of environmental, social, and economic responsibility. We provide sustainable solutions to our clients by offering cost-effective and environmentally responsible services that contribute to ensuring a viable, healthy future for our world. We provide sustainable solutions to our communities by serving as a caring, stable force behind worthwhile community endeavors. And we provide sustainable solutions to our shareholders by following a business strategy that focuses on long-term growth while mitigating risk. Throughout our organization, we strive to ensure that our business practices and design approaches "meet the needs of the present without compromising the future."

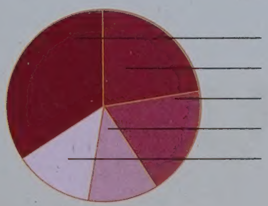
Top 10 global design firm by 2008

Teamwork is helping us reach a goal we established in 1998 to become a top 10 global design firm by 2008. For us, attaining this objective does not mean having an office presence and operations on every continent around the globe but being ranked for the quality of our work among the top 10 peers in our industry anywhere in the world. Our 10-year plan for realizing our goal is based on expanding the depth and breath of our services, which, in turn, is expected to grow our business between 15 and 20% annually. At the end of 2006, we are an $800 million revenue company with more than 6,000 employees operating out of over 80 offices.

Our current success is the continuation of a track record of profitability and growth that goes back to the early days of our Company. In fact, since our founding in Edmonton, Alberta, in 1954, we have achieved 53 consecutive years of uninterrupted profitability, and since our initial public offering on the Toronto Stock Exchange in 1994, we have grown our gross revenue, net income, and diluted earnings per share at a compound annual average rate of 20.3%, 25.6%, and 17.7%, respectively. This strong performance has contributed to an 818% increase in the price of our shares since 1994.

We take a prudent, focused approach to growth—both organic growth and growth through acquisitions—gradually enhancing the three dimensions of our business model. And with each expansion, teamwork is strengthened across our organization. In 2006 we created a new region in New England; established a presence in Florida and Texas; and broadened our service offerings in the electrical, environmental, transportation, control and communications systems, and energy and resources engineering disciplines. Our strategy going forward is to maintain our market presence in our mature regions, continue to grow our operations in our developing and emerging regions through a combination of internal hiring and acquisitions, and expand to new regions through the integration of acquired firms. Because of the solid foundation we have built to date, we are now able to acquire and integrate larger firms in the infrastructure and facilities sector.

2006 Gross Revenue by Practice Area



23%

increase in gross revenue due to organic growth

Stantec leaders are one team planning, managing, and acting together.

One Team. Infinite Opportunities.
People and Projects

At Stantec we are architects, engineers, interior designers, landscape architects, planners, scientists, economists, and many other professionals. Yet as diverse as we are, we share certain essential characteristics: passion for our work, drive for excellence, and dedication to meeting our clients' needs. From the first spark of an idea to its final execution, we take pride in everything we do, delivering high-quality project solutions that are both functional and aesthetically pleasing, that achieve a high level of acceptance by users, and that provide a return on our clients' investment.

Wherever we are located in the Stantec world, working together as one team gives us infinite opportunities. Opportunities to collaborate with some of the best, most forward-thinking clients in sectors as widely divergent as, for example, education and pharmaceuticals. Opportunities to contribute our talents to innovative and exciting infrastructure and facilities projects across North America and internationally. And, perhaps most importantly, opportunities to touch the lives of people in communities around the globe by designing projects that provide clean water, safe transportation, sustainable buildings, and livable neighborhoods—the most basic daily necessities.

Opportunity spurs on the imagination, and project by project, we strive to deliver the best services to our clients through just the right combination of knowledge, skills, and expertise. The projects featured in the following pages are only a few examples of the infinite solutions we provide.

Big Horn Wind Project—Our team of Energy & Resources engineers and technicians from Edmonton, Alberta, and Portland, Oregon, provided innovative design solutions for the development of a 133-turbine wind farm in Klickitat County, Washington.

Sustainable Solutions

At Stantec we develop cost-effective, sustainable design strategies that conserve energy, protect the environment, and reduce the need for scarce natural resources. In particular, we are committed to achieving the standards of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System®, a nationally accepted benchmark for the design, construction, and operation of high-performance sustainable buildings.

In 2006 we won national acclaim for our sustainable design work for the City of Vancouver in British Columbia on Southeast False Creek. The first phase of this 36-hectare (80-acre) mixed-use "green" community is being developed as the Athletes Village for the 2010 Winter Olympics on a reclaimed industrial site in the inner city. As the leader of the infrastructure design team, we prepared the public realm urban design and site servicing plan for the new community—which is targeted to achieve LEED certification—bringing together our expertise in project management; urban design; and civil, structural, electrical, and mechanical engineering. The public realm plan includes the design of parks, plazas, waterfront walkways, pedestrian bridges, roadways, and street lighting for the project. We also developed an energy supply and conservation strategy along with designing a district heating distribution system. Grounded in environmental protection, the solutions we provided showcase green technologies such as using 100% renewable energy to power the community (making the neighborhood greenhouse gas neutral); reusing stormwater for landscape irrigation, gardening, and art features; and using ponds and wetlands habitat to clean roadway stormwater.

In Klickitat County, Washington, we put our sustainable energy solutions to work for PPM Energy, a subsidiary of Scottish Power and the second-largest developer of wind energy in the United States, on the Big Horn Wind Project. Staff in our Portland, Oregon, office teamed up with staff in our Edmonton, Alberta, office to provide consulting and design services for the development of the 133-turbine wind farm. One of the project's challenges was to help our client avoid the high costs of trenching through solid basalt rock at the Big Horn site in order to install a large portion of the 35-kilovolt collector system needed to electrically link the turbines. Our solution was to design single- and double-circuit overhead pole lines for 8 miles (13 kilometres) of the collector system. The end result was a saving of several million dollars in construction costs along with the generation of 200 megawatts of clean electricity, enough to power about 60,000 homes.

In Rochester, New York, we were given the job of finding a cost-effective way of remediating contaminated soil and groundwater present under the Ward Street building location of the Germanow-Simon Corporation, a bimetal thermometer and pressure gauge manufacturer, to enable the corporation to remain in its downtown "brownfield" home of 50 years rather than developing a rural "greenfield" site. The Ward Street site had been affected by spills of dry cleaning solvents (tetrachloroethene and Stoddard solvent) and other volatile organic compounds while under previous ownership. Coming together from our offices in Rochester and Saskatoon and Regina, Saskatchewan, we used our specialized skills in in-situ remediation (remediation that occurs "in place" without mass soil

200

megawatts of clean electricity, enough to power 60,000 homes, are generated by the Big Horn wind farm

S^3 = Stantec's Sustainable Solutions

Stantec delivers on the triple bottom line of environmental, social, and economic responsibility.


Stantec/PWL Landscape Architects

Southeast False Creek Community—We prepared the public realm urban design and site servicing plan for this "green" community in Vancouver, British Columbia. The first phase will serve as the Athletes Village for the 2010 Winter Olympics.

removal) in a pilot study at the site and, from the study results, were able to recommend multiphase vacuum extraction (MPVE) as a viable solution for our client. Now in full-scale operation, our remedial approach is designed to attain conditions that are safe for the natural environment and public health while allowing the site to be used for commercial and industrial purposes, and it has already produced positive results. During the pilot study and the first three months of implementation, the MPVE system removed an estimated 53 kilograms (117 pounds)—0.22 kilograms (0.48 pounds) per day—of volatile organic compounds from the subsurface soil. The system is expected to operate for the next three years, and our client will remain at the Ward Street site.

In Calgary, Alberta, we are applying our sustainable development expertise in our work with Project Evolve, a seven-year partnership with the University of Calgary and Direct Energy Business Services focused on creating a sustainable university campus through the redevelopment and expansion of campus facilities and infrastructure. Our responsibilities span a full range of consulting services—facilities management, project management, design, buildings engineering, and strategic planning—for new construction and renovations undertaken in the program. In particular, we are preparing (in collaboration with key stakeholders) comprehensive green guidelines for university development as well as completing business cases and peer reviews for campus design proposals. Ultimately, our solutions will not only support the university's vision of sustainability but also yield long-term savings in operating costs.

We are also proud of the mechanical engineering solutions we provided in helping Parks Canada develop an energy-efficient, ecologically responsive new facility to house the operations and administrative staff for the

The solutions we provided for Southeast False Creek showcase green strategies such as using 100% renewable energy to power the community, reusing stormwater for landscape irrigation, and using ponds and wetlands habitat to clean roadway stormwater.

Gulf Islands National Park Reserve in British Columbia. Located on the waterfront of Tsehum Harbour in Sidney, the Gulf Islands National Park Reserve Operations Centre is the first buildings project in Canada to achieve LEED Platinum certification, the highest rating in green buildings design. We employed technology and products such as occupancy sensors and rainwater collection to improve indoor air quality through natural ventilation and reduce domestic water use at the facility. And we developed a thermal control system that uses seawater to provide in-floor radiant heating and cooling, which eliminated the need for a traditional chiller system. Together, these solutions resulted in a 75% improvement in energy performance for the building and will save approximately 108,000 litres (28,530 US gallons) of fresh water each year.

We have over 270 LEED-accredited professionals.

Michael Dhont, project manager, displays the LEED Platinum plaque awarded to the Gulf Islands National Park Reserve Operations Centre project.

Stantec/Larry McFarland Architects Ltd.

Gulf Islands National Park Reserve Operations Centre—The mechanical engineering solutions we provided for the development of this operations center in Sidney, British Columbia, contributed to a 75% improvement in energy performance for the building.

Truliant Federal Credit Union, Mendenhall Branch—Our integrated team of architects, interior designers, surveyors, and engineers in Winston-Salem, North Carolina, helped to develop a new credit union branch in High Point that complements its natural environment: native stones accent the exterior and interior walls; two-story clerestory windows light the interior with North Carolina sunshine; and curves in the ceiling mimic puffy clouds.

Integrated Solutions

At Stantec we provide fully integrated architecture and engineering design services to public and private sector clients in widely diverse industries.

In 2006 we contributed a full complement of professional design services—architecture; interior design; surveys/geomatics; and mechanical, electrical, structural, plumbing, fire protection, and civil engineering—to the development of Truliant Federal Credit Union's new 8,000-square-foot (743-square-metre) Mendenhall Branch in High Point, North Carolina. Charged with creating a facility that is a select destination for its members, we designed conference rooms, a coffee area, a play area, and a quiet room—with computer workstations where members can check their accounts—along with installing flat screen televisions to help members keep up-to-date with news from the major stock exchanges.

During the year, we also came together to provide architecture as well as structural, electrical, industrial process, and urban land engineering services for the development of the Strathcona County Energy Centre, a district heating facility in Sherwood Park, Alberta, for an internationally prominent energy producer. When complete, the center will feature a district energy system that supplies heat (through hot water piped underground) to all buildings in Sherwood Park's new Centre in the Park multiuse development. Our main tasks were to prepare the site plan and design the building and its electrical system. The sustainable design strategies we incorporated into our designs will help our client achieve LEED Silver certification for the center. In addition, the district energy system is expected to produce 18% fewer greenhouse gas emissions than a conventional energy system.

In Manitoba, we were chosen to serve as the prime consultant, providing all civil, mechanical, electrical, and structural engineering services as well as architecture and project management, for a major expansion of the South End Water Pollution Control Centre for the City of Winnipeg. This multimillion-dollar project involves upgrading the wastewater treatment plant to an advanced system that uses biological nutrient (phosphorous and nitrogen) removal technology. Our integrated solutions will enable the upgraded plant, slated for completion in 2012, to meet more stringent criteria for effluent discharge and to service a growing population in Winnipeg to the year 2031.

We are also pleased to be providing full architecture and engineering services for the development of the Whistler Sliding Centre in preparation for the 2010 Olympic and Paralympic Winter Games in Vancouver, British Columbia. Situated on the slopes of Blackcomb Mountain, the center will be the venue for the luge, bobsleigh, and skeleton events. Our architectural work includes designing the start houses, track operations building, weigh house, control tower, guest services building, and refrigeration plant facility for the site. And we are contributing our engineering expertise to the design of the refrigerated track and the track foundations. This design is especially challenging because of the track's length—approximately 1,700 metres (5,577 feet) over 230 metres (754.5 feet) of change in elevation—and its three-dimensional curve. Our responsibilities also comprise the design of the site servicing infrastructure, including the track access road; pedestrian overpasses and tunnels; a water reservoir; and water, power and communications, and sewage facilities.

Winnipeg International Airport New Terminal Building—As part of a design team, our Architecture group from Winnipeg, Manitoba, and Vancouver, British Columbia, designed a series of transparent luminous pavilions at Winnipeg's new international airport terminal, taking full advantage of the prairie horizon and sky. Our solutions for the project included green strategies for reducing the terminal's environmental impact, such as high-performance building envelope design.

Stantec Architecture/Pelli Clarke Pelli

Buildings Solutions

At Stantec we provide comprehensive solutions for the design of high-performance, energy-efficient commercial, industrial, and institutional facilities.

Working from our offices in Winnipeg, Manitoba, and Vancouver, British Columbia, and in association with Pelli Clarke Pelli, we are completing the architectural and interior design of a new terminal at the Winnipeg International Airport. Along with 11 contact and 7 ground-loading gates, the terminal will include consolidated check-in counters and baggage-handling areas and a single security checkpoint for all travelers, making it one of the most passenger-friendly airport facilities in North America. The building will also incorporate a number of sustainable design technologies to reduce its environmental impact, including innovative ventilation and natural daylighting using glass interior walls. When completed in 2008, the terminal will be the first airport project in Canada, and one of the first in North America, to qualify for LEED certification.

In Hamilton, Ontario, we helped McMaster University realize part of its environmental action plan for campus development by targeting LEED certification in our architectural and interior design of a new 390-bed residence for students. The design included strategies for improving energy efficiency and conserving resources as well as integrating students into the campus's natural ecosystems. The six-story building offers students views of Cootes Paradise, a wetlands conservation area, while protecting this natural resource through sustainable landscaping. In addition, we helped create a community atmosphere for students by designing "neighborhoods" of 15 to 20 residents surrounding a common lounge and kitchen facilities.

We are also helping the Government of British Columbia demonstrate its commitment to sustainable development through our architectural and interior design of the Burnaby Youth Justice Services Centre, another LEED-targeted project. A renovation of the former Burnaby Correctional Centre for Women, the project brings together existing youth custody and forensic psychiatric services on one site. The 101-bed facility will include a new open custody living unit, an inpatient assessment unit, outpatient clinical services, and space for program support and administration.

And in Kamloops, British Columbia, we are providing architecture and engineering services as the prime consultant on an expansion of the Tournament Capital of Canada Facilities. Targeting LEED Silver certification, the project involves the design of both new and renovated sports facilities, including soccer pitches; baseball diamonds; indoor and outdoor tracks; natural grass pitches; multisport artificial turf; baseball, soccer, and outdoor track stadiums; an Olympic ice arena; a hockey and curling venue; a triple gymnasium; and a sports medicine clinic. All told, the solutions we provide will help the City of Kamloops achieve its goal of becoming the premier Canadian host center for tournaments, cultural events, high-performance training camps, and national and international competitions.

Kamloops Tournament Capital of Canada Facilities—We are designing new and renovated sports facilities for this LEED Silver-targeted project in Kamloops, British Columbia.

Stallings Stream and Wetlands Project—Our Environmental Management team in Raleigh, North Carolina, is providing solutions for the North Carolina Ecosystem Enhancement Program in Jones County that will help preserve or improve 28.8 acres (11.6 hectares) of wetlands such as Flat Swamp pictured above.

Environmental Solutions

At Stantec we provide solutions for sustaining air, water, and soil quality and the health of natural ecosystems.

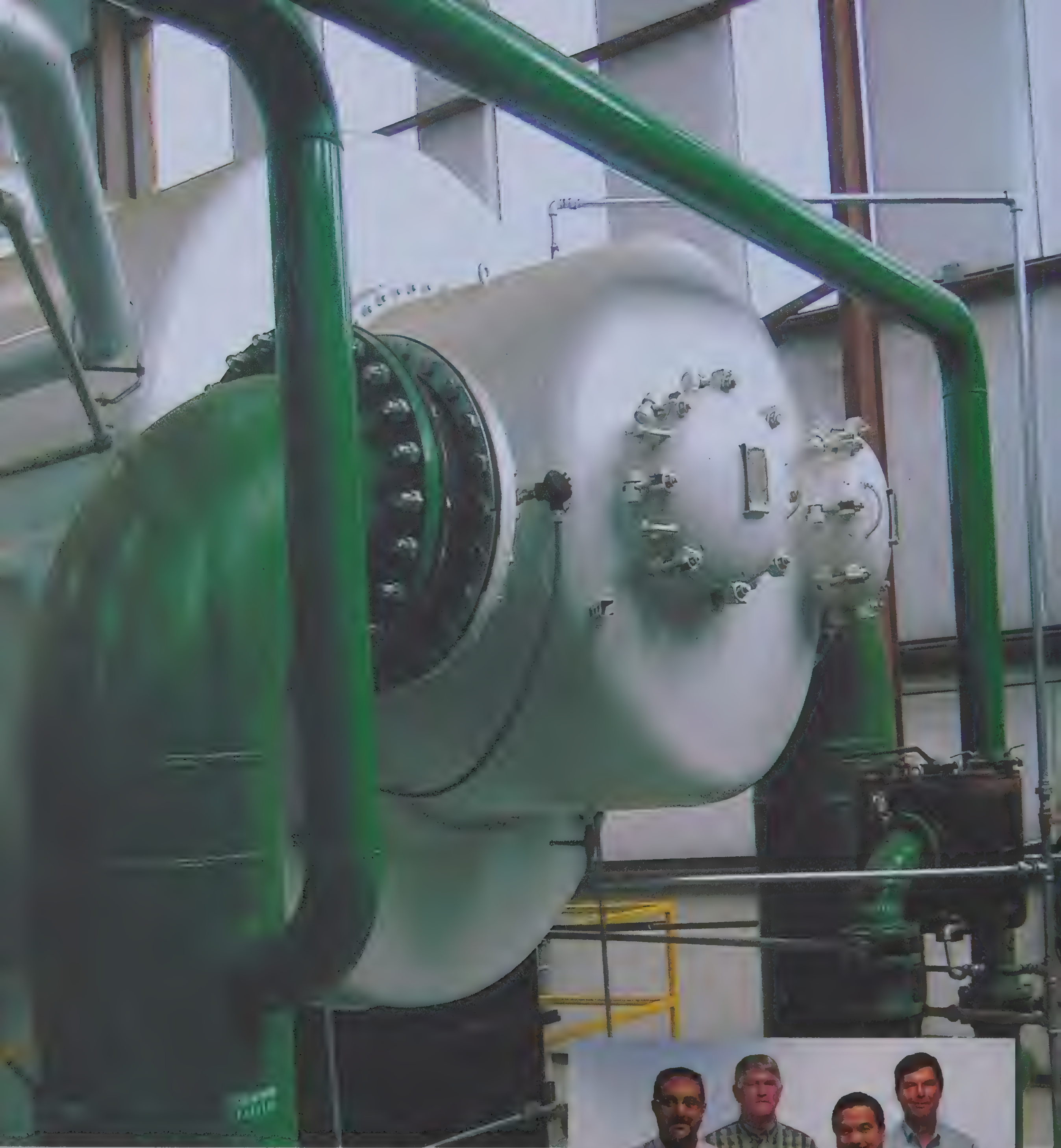
For example, in California, we provided preliminary engineering and program management services to the City of Ontario for the planning of the Mill Creek Wetlands, possibly one of the largest constructed natural treatment wetlands in North America. Once built, this 150-plus-acre (60.7-plus-hectare) multijurisdictional facility will treat urban runoff from a 52-square-mile (134.7-square-kilometre) tributary area within the San Bernardino County Flood Control District and provide new habitat for a variety of wildlife. Along with developing the project concept, facility siting, layout, and configuration, we completed the hydraulic modeling and design of the first phase of the wetlands. The design approach will integrate recreational and educational amenities that will enable area residents to not only enjoy the wetlands but also learn about the need to promote water quality in the urban setting.

Similarly, the solutions we are contributing to a stream and wetlands project in Jones County, North Carolina, will help improve water quality and restore important coastal plain aquatic and terrestrial habitats in an area where most streams have been straightened and the wetlands drained for agriculture. The project entails the restoration of 4,159 linear feet (1,268 metres) of stream—using natural channel design to recreate meanders and other features—and the preservation or improvement of 28.8 acres (11.6 hectares) of wetlands on former farmland as part of the North Carolina Ecosystem Enhancement Program. Our restoration plan will also include the design of an upland buffer connecting two large forested areas, which will provide a valuable corridor for wildlife in the region.

In Coventry, Vermont, we were instrumental in helping the Washington Electric Cooperative install a system for converting gas extracted from the Coventry Landfill—the largest landfill in the state—into electricity. Teaming up from three different offices in Massachusetts and Vermont, we prepared landfill gas generation models, collected field samples of subsurface conditions and gas quality, provided conceptual designs and calculations, and managed the construction of a new Landfill Gas to Electricity (LFGTE) power plant. The end result was a source of clean energy for the cooperative that is both reliable and sustainable. Now in operation, the LFGTE facility supplies over 6.0 megawatts of electricity, powering more than half of the homes and businesses in the cooperative's service area.

We have also put our environmental solutions to work on a much-needed upgrade and expansion of the water treatment plant in West Elgin, Ontario. Built around 1930, the plant's primary disinfection system—chlorination—was no longer adequate for meeting new regulatory requirements for treating source water from Lake Erie. Following an environmental assessment of the long-term water requirements for the area—the plant is the primary water supply for five municipalities—we completed the engineering and architectural design and supervised the construction of a system upgrade to ultraviolet (UV) disinfection. The next phase of our work involves designing a plant expansion to incorporate the use of membrane filtration and advanced UV oxidation technologies along with a constructed wetland to treat backwash water from the plant. Scheduled for completion in 2008, the new and expanded plant will provide 12.2 megalitres (3.2 million US gallons) of clean water to approximately 15,000 people per day as well as recreational and large farming operations.

Landfill Gas to Electricity Power Plant—
We provided environmental management solutions that ultimately enabled an electrical cooperative in Coventry, Vermont, to power more than half of its service area with a sustainable source of clean electricity.



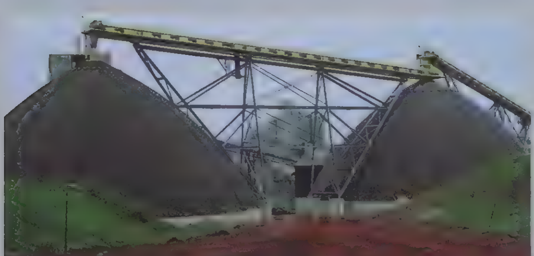
Steam Turbine Generator—Our Industrial engineers and designers in Walnut Creek, California, are developing a condensing/extraction steam turbine generator for a forestry products company in Burlington, Washington.

Industrial Solutions

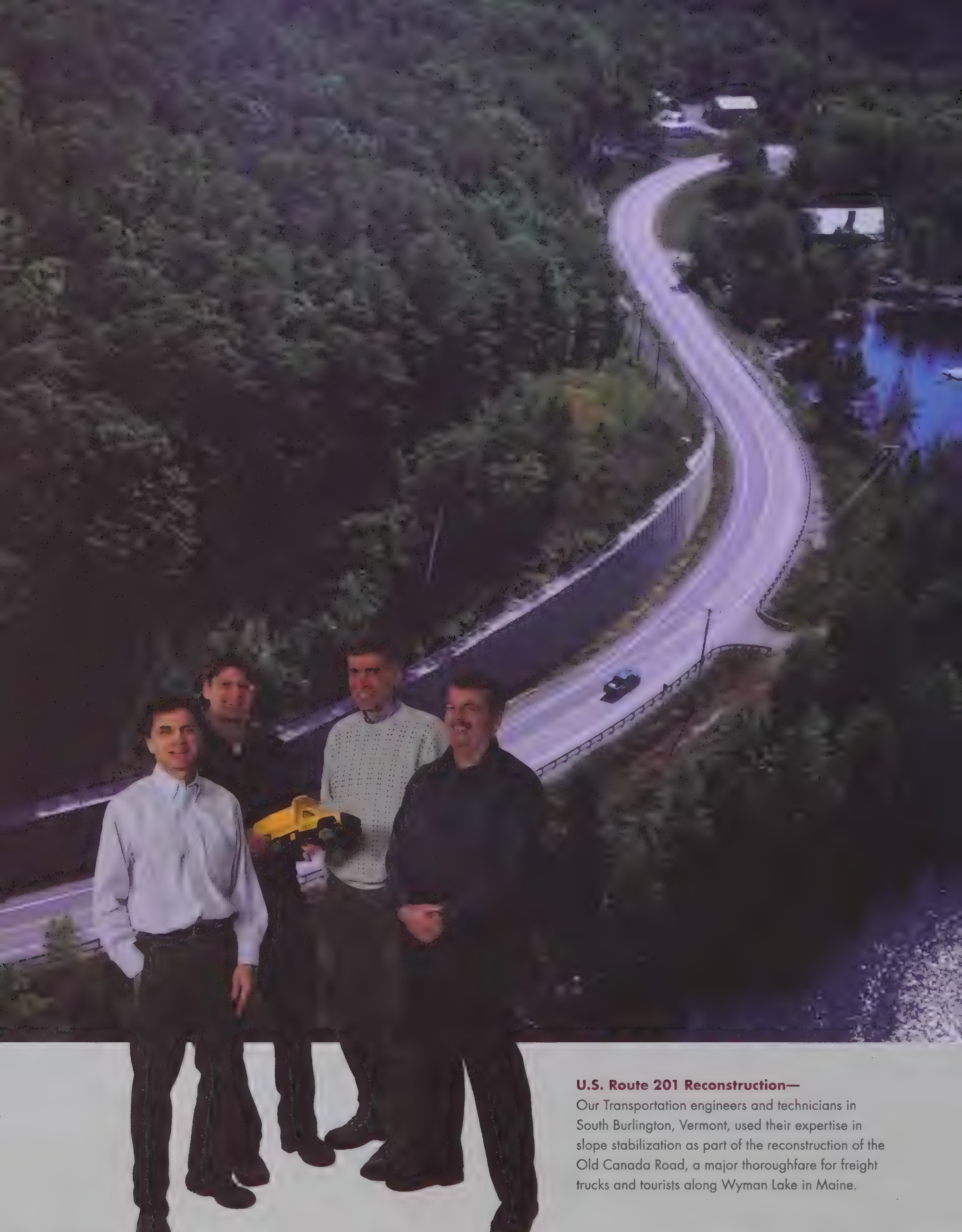
At Stantec we provide solutions for the development and operation of facilities in all industrial sectors—automotive, chemical, consumer products, forestry, food and beverage, bio/pharmaceutical, power generation, pulp and paper, utilities, mining, and general manufacturing.

For example, we have been involved in upgrading the manufacturing and utility systems at Johnson & Johnson's ALZA pharmaceutical oral solid dosage manufacturing plant in Vacaville, California. We brought our architecture and engineering skills together to select the necessary manufacturing equipment for the renovation and to design clean rooms; heating, ventilation, and air-conditioning systems; clean utilities; solvent vapor control systems; fire protection systems; and access control and monitoring systems for government-controlled substances. The work incorporated the requirements of current good manufacturing practices (cGMPs) for compliance with US and European standards. We also applied our expertise in code compliance for the design of manufacturing spaces meeting H (hazardous) occupancy. On completion of our work, the solutions we provided increased the plant's manufacturing capacity, improved its process controls for product quality and yields, and continued its adherence to and improvements of cGMPs.

We are also contributing mechanical, civil, and structural engineering solutions to the development of a new sawmill for a forestry products company in Burlington, Washington. The project entails the design of a 28-megawatt condensing/extraction steam turbine generator for the sawmill, including the turbine building equipment layout, steam condenser and condenser water system, cooling tower basin, condenser water pumps, distribution piping, steam extraction line, structural support system, and extensive overhead pipe racks. Once operational, the turbine generator will produce high-pressure steam through a hog-fueled boiler that uses bark, sawdust, and wood waste from the sawmill operations, and the steam extraction line off the turbine will supply medium-pressure steam to the mill's dry kilns. The selective noncatalytic reduction system we are designing for the new boiler will inject urea into the boiler exhaust gas, significantly reducing the formation of nitrogen oxide by the plant. In addition, our boiler system design will include all the tanks, pumps, urea injectors, and controls necessary to ensure that greenhouse gas emissions from the boiler are maintained within the plant's permit limits.



New Clay Handling System Domes—We provided multidiscipline facilities engineering services for the design of a new clay handling system located in St. Mary's, Ontario. The system receives, stockpiles, and stores clay in two dome structures.



U.S. Route 201 Reconstruction—
Our Transportation engineers and technicians in South Burlington, Vermont, used their expertise in slope stabilization as part of the reconstruction of the Old Canada Road, a major thoroughfare for freight trucks and tourists along Wyman Lake in Maine.

Transportation Solutions

At Stantec we deliver solutions that help move people, vehicles, aircraft, and goods safely and efficiently.

For example, we are playing a significant role in developing a four-phase extension of the light rail transit system in Edmonton, Alberta, which will help connect people to the city's growing south side without adding to traffic congestion. In addition to transportation engineering, the project involves our expertise in program and project management, buildings engineering, and surveys/geomatics, among other disciplines. All together, our tasks include surveying the line location—nearly 88 hectares (217 acres) of land—designing 8 kilometres (5 miles) of track alignment, and acting as the managing consultant for the engineering and construction of two tunnels; two cut and cover grade separations; two bridges; five stations; three transit centers; one park and ride lot; a number of pedestrian pedways; and extensive road, multiuse trail, and utility relocates. The final phase of the new south line is scheduled to open in early 2010.

Working with the North Carolina Department of Transportation and two independent developers, we engineered and designed a superstreet, a roadway corridor incorporating innovative intersection configurations, to help improve traffic flow and safety during peak hours along U.S. Route 17 in Leland, North Carolina. In a superstreet design, the left-turning option is removed and vehicles wishing to turn left are rerouted to a U-turn lane, thus keeping traffic moving and making the signal operation more efficient. Along with completing the roadway design, we were responsible for designing the cable routing and signals; preparing operational, signing, and signal timing plans; conducting computer traffic simulations; and developing cost estimates and bid documents, among other duties.

In upstate New York, we took on the challenge of rehabilitating a 2-mile (3.2-kilometre) stretch of Route 9 that runs through Plattsburgh as part of an urban revitalization plan for the southeast end of the city. This section of Route 9, which is a historic highway, was in poor repair and had been rated as the region's worst road by the New York State Department of Transportation. To address safety concerns and help the city achieve its goal, we completely redesigned the roadway along with restoring the historic Bridge Street Bridge and replacing the Broad Street Bridge. Our design included a new traffic circle, center turning lanes, a bicycle/pedestrian trail, new sidewalks, landscaping, streetscaping, utilities upgrades, and a closed drainage system. Since the completion of the reconstruction, new houses and businesses have sprung up along the route, and the southeast side of Plattsburgh has been transformed into a bustling economic hub.

Likewise, the planning and design solutions we provided for the reconstruction of 3 miles (4.2 kilometres) of U.S. Route 201 in Maine improved safety for motorists and also preserved—and reestablished—natural areas and vegetation that give this National Scenic Byway its charm. Known as the Old Canada Road, this section of the route winds along rocky hillsides and the steep shores of Wyman Lake and had been the site of several motor vehicle accidents over the years. In addition, many of its curves did not meet current highway standards. In redeveloping the road, we used our skills in slope stabilization—employing soil nail walls and organic wood compost—and designed abutments and wing walls that support a new bridge over a contributing stream without affecting the water and wetlands. We also designed a cross section for truck lanes and new scenic turnouts and overlooks.

U.S. Route 17 Corridor Study and Superstreet Design—We engineered and designed a superstreet to improve traffic flow and safety for motorists in Leland, North Carolina.

Charlie Kellogg and Joe Zaher Sports Complex—
Project manager Cary Baird and a team of landscape architects in Las Vegas designed a city park that includes Nevada's largest lighted soccer fields and regional U.S. Tennis Association complex.

Urban Land Solutions

At Stantec we provide solutions that help urban land clients across North America develop attractive, people-friendly communities, recreational space, and commercial centers.

A prime example is our work for the developers of Oak Valley, a 6,700-acre (2,711-hectare) mixed-use community in Calimesa, California. At final buildout in 2010, the community is expected to include 13,000 residences and four golf courses, as well as a large industrial and commercial component, schools, parks, and a recreation center. It is already home to the Southern California Professional Golf Association's facilities. We prepared the infrastructure master plan for the community, along with providing a wide range of other urban land services, including water resources and treatment analyses, environmental impact review, hydrologic and hydraulic analyses, civil engineering, and surveying. We also contributed civil engineering services to previous phases of the development. As Oak Valley takes shape, we continue to work with the developers, providing solutions that are helping to transform their vision of the community into reality.

Working with developers in Utah, we are providing the infrastructure master plan, construction drawings, and construction oversight for the development of Amangiri, a world-class new resort with a 34-room hotel and 31 villas located on a 700-acre (283-hectare) site near Lake Powell. In addition, we have assessed the flood hazards of the washes traversing the site to assist the project planning. To preserve the resort's unique environment—including rock walls and ancient living sand dunes—the infrastructure is being developed in such a way that it will have minimal visual impact on the area. Our master plan includes roadways; a water system with a 1,100-foot (335-metre)-deep well, pump station, and storage tank; a sewer system that includes an entirely pressurized collection system (thus avoiding the disturbances a conventional gravity system would have required); and an on-site wastewater treatment plant for treating all wastewater produced at the resort.

In Nevada, we used our expertise in recreation and community space planning to help the City of Las Vegas develop the Charlie Kellogg and Joe Zaher Sports Complex. The project involved the design of a 110-acre (40-hectare) park complete with Nevada's largest regional U.S. Tennis Association complex with 23 tennis courts, as well as 11 lighted soccer fields (also the state's largest), seven of which use water-saving artificial turf. We also designed multiuse open space and picnic areas, dog runs, bicycle and jogging trails, concession and restroom buildings, irrigation systems, and parking, among other amenities for the complex. As a result of our planning, the sports complex will be connected to other parks in the future to create a one-of-a-kind park link for the community.

Our landscape architecture solutions also helped make Laurelwood, a new neighborhood in Waterloo, Ontario, into a unique and welcoming community. The new subdivision is a 182-hectare (450-acre) multiphase development for which we also provided full-scale urban land engineering services in 2004. The project scope included designing streetscapes, two small public parks with play equipment, and trails linking the community's four stormwater ponds. In addition, we developed naturalization strategies to blend the ponds into their surroundings. Our naturalization approach—using live cattails and other plant species to jumpstart aquatic life—has recreated an abundance of nature within the urban setting. Since project completion, fish and tadpoles have already been observed in the ponds.

Oak Valley Community— We prepared the infrastructure master plan and provided urban land services for the development of a 6,700-acre (2,711-hectare) mixed-use community in Calimesa, California.

Tsunami Relief—In 2006 three of our engineers from Edmonton, Alberta, and Kitchener, Ontario, traveled to the Indonesian province of Aceh to work with the United Nations Development Programme in rebuilding infrastructure destroyed by the 2004 tsunami.

One Team. Infinite Caring.
Community Investment

At Stantec our culture of collaboration extends beyond the solutions we provide to our clients. Together, we strive to enhance the knowledge, prosperity, health and wellness, and quality of life of the communities in which we work across North America and internationally. We view our contributions as important building blocks in helping to establish and maintain solid, broadly based community infrastructure.

Our Community Investment Program supports endeavors in four primary areas: the arts, education, health and wellness, and the environment. Our objectives for the program are to donate 1% of our annual pretax profits to charitable and nonprofit organizations, encourage personal charitable giving by employees, and promote and facilitate employee volunteerism.

During 2006, we were pleased to present 14 scholarships in partnership with universities across North America. The Stantec Scholarship Program provides funding for students principally in design fields related to our services in each of our regions. In addition, we supported the work of health care, arts, and environmental organizations Company wide, such as the Richmond Hospital Foundation in Richmond, British Columbia; the Woodland Community Foundation in Sacramento, California; the Arts & Science Council in Charlotte, North Carolina; the Globe Theatre Society in Regina, Saskatchewan; the Toronto Fresh Air Fund in Toronto, Ontario, and the Monroe County Parks Commission Environmental Fund in Ann Arbor, Michigan.

In 2006 we were also proud to contribute pro bono professional engineering services to the reconstruction efforts being carried out by the United Nations Development Programme in response to the devastation caused by the 2004 tsunami in the Indonesian province of Aceh. Working on the ground in the city of Banda Aceh and through Web-based technology from our offices in Kitchener, Ontario; Edmonton, Alberta; and Rochester, New York, we were involved in a program to improve community roads as well as a project to rebuild solid waste management facilities. We are thankful that the rehabilitation of these key infrastructures will have a meaningful impact on the people affected by the tsunami.

Acting on our concern for community well-being, we teamed up to support community endeavors across North America by donating our time, expertise, and skills during the year. For example, in Irvine, California, we contributed sewer and water utilities design services to the development of a 210-acre (85-hectare) center

Revitalized Playground— We designed a new park layout and installed new equipment at a playground in North Springfield, Vermont.

over **300** organizations were supported in 2006 through our Community Investment Program

Adopt-A-Stream Cleanup—Our team in Raleigh, North Carolina, retrieved over 30 bags of garbage from a half-mile section of a tributary to Lake Johnson during the office's fifth annual Adopt-A-Stream cleanup.

complete with camping facilities and a dormitory for the Orange County Council, Boy Scouts of America. Scheduled to open in mid-2007, the center will host children from across Orange County. In North Springfield, Vermont, we helped revitalize a children's playground by designing a new park layout as well as assisting with cleanup, tree planting, and the installation of new playground equipment. We also donated our time and funds to the construction of a boardwalk through the Hanlon Creek Wetlands in Guelph, Ontario. The boardwalk will allow visitors to experience the wetlands without damaging the delicate ecology of the area. And we volunteered our time and muscles to helping Habitat for Humanity build homes for low-income families in Albany, New York; Calgary, Alberta; and Phoenix, Arizona.

Throughout the year, we also came together to walk, run, and participate in other fund-raising campaigns in support of the United Way, Big Brothers Big Sisters, Engineers Without Borders, the Junior Diabetes Research Foundation, the American Heart Association, the Canadian Gene Cure Foundation, the American and Canadian Cancer Societies, and many other worthwhile organizations.

These are only a few examples of the many ways in which Stantec is one team caring for communities across North America and internationally.

STANTEC INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

and

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, and 2005

STANTEC INC.
Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Stantec Inc.'s operations and financial position, dated February 21, 2007, should be read in conjunction with the Company's 2006 audited consolidated financial statements and related notes. Our 2006 audited consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada, which differ in certain respects from GAAP in the United States. Note 21 of the audited consolidated financial statements summarizes the principal differences between Canadian and US GAAP that affect our financial statements. Unless otherwise indicated, all amounts shown below are in Canadian dollars. Additional information regarding the Company, including our Annual Information Form, is available on SEDAR at www.sedar.com. Such additional information is not incorporated by reference and should not be deemed to be made part of this Management's Discussion and Analysis.

During the second quarter of 2006, our shareholders approved the subdivision of our common shares on a two-for-one basis. All references to common shares, per share amounts, and stock-based compensation plans in this Management's Discussion and Analysis have been restated to reflect the stock split on a retroactive basis.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our public communications often include written or verbal forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act and Canadian securities law. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action and include future-oriented financial information.

Statements of this type are contained in this report, including the discussion of our goal in the Visions, Core Business, and Strategy section and of our annual targets and expectations for our practice areas in the Results and Outlook sections, and may be contained in filings with securities regulators or in other communications. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2007 and beyond, our strategies or future actions, our targets, our expectations for our financial condition or share price, or the results of or outlook for our operations or for the Canadian or US economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report to not place undue reliance on our forward-looking statements since a number of factors could cause actual future results, conditions, actions, or events to differ materially from the targets, expectations, estimates, or intentions expressed in these forward-looking statements.

Future outcomes relating to forward-looking statements may be influenced by many factors, including, but not limited to, global capital market activities; fluctuations in interest rates or currency values; our ability to execute our strategic plans or to complete or integrate acquisitions; critical accounting estimates; the effects of war or terrorist activities; the effects of disease or illness on local, national, or international

economies; the effects of disruptions to public infrastructure such as transportation or communications; disruptions in power or water supply; industry or worldwide economic or political conditions; regulatory or statutory developments; the effects of competition in the geographic or business areas in which we operate; the actions of management; or technological changes.

We caution that the foregoing list is not exhaustive of all possible factors and that other factors could adversely affect our results. The Risk Factors section below provides additional information concerning key factors that could cause actual results to differ materially from those projected in our forward-looking statements. Investors and the public should carefully consider these factors, other uncertainties, and potential events as well as the inherent uncertainty of forward-looking statements when relying on these statements to make decisions with respect to our Company. The forward-looking statements contained herein represent our expectations as of February 21, 2007, and, accordingly, are subject to change after such date. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time.

VISION, CORE BUSINESS, AND STRATEGY

Our Company provides professional consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying and geomatics, environmental sciences, project management, and project economics for infrastructure and facilities projects. Through multidiscipline service delivery, we support clients throughout the project life cycle—from the initial conceptual planning to project completion and beyond.

Our goal is to become a top 10 global design and consulting services firm, and our focus is providing professional services in the infrastructure and facilities market principally on a fee-for-service basis. To achieve our objective, we must expand the depth and breadth of our services, which will result in growth. We intend to continue to pursue a prudent growth plan in expectation of achieving or exceeding $1 billion in annual revenue in the year 2008.

Our business strategy is based on managing risk by

- Diversifying our operations through a focused, three-dimensional business model
- Serving many clients on many projects
- Taking on little or no construction risk
- Positioning ourselves among the top-three service providers in our geographic regions and practice areas

Our focused, three-dimensional business model allows us to manage risk while continuing to increase our revenue and earnings. The model is based on

- Diversifying our operations across several geographic regions
- Specializing in distinct but complementary practice areas
- Providing services in all five phases of the infrastructure and facilities project life cycle (planning, design, construction, maintenance, and decommissioning)

Through our “One Team. Infinite Solutions.” approach to our business and service delivery, we have one reportable GAAP segment—Consulting Services—which is an aggregate of our operating segments. Our operating segments are based on our regional geographic areas, and our chief operating decision maker (Chief Executive Officer) assesses our Company’s performance based on financial information available from these geographic areas. In addition, we have practice areas that provide strategic direction, mentoring, and technical support across all of our geographic regions.

The following discussion outlines the three main components of our business model.

Geographic Diversification

Currently, we operate in three main regions in North America—Canada, the US East, and the US West. We also have a small presence in the Caribbean and a project presence in several international locations. Our target is to position our Company among the top three service providers in each of our regions. Based on our services mix, this generally means achieving a market penetration of $10 million in revenue per one million population. We realize this objective in our existing areas primarily by adding services through organic growth and strategic hiring supplemented by acquisitions. We achieve our target in new areas principally by acquiring and integrating firms that complement our organization supplemented by organic growth and strategic hiring.

Practice Area Specialization

Currently, we provide services in five specialized and distinct practice area groupings—Buildings, Environment, Industrial & Project Management, Transportation, and Urban Land.

Buildings. We provide comprehensive solutions for the development of commercial, industrial, and institutional facilities through two specialist practice areas: 1) Architecture, Interior Design & Facilities Planning & Operations and 2) Buildings Engineering. Our core services in these areas include project/program management, facilities management, strategic planning, architectural design, interior design, and structural, mechanical, electrical, and acoustical engineering for both new construction and existing buildings and facilities. For existing buildings, we offer expertise in performance engineering, building operating systems (including analysis of exterior envelope, air quality, lighting, and energy efficiency), and ongoing tenant improvements.

Environment. We provide solutions for sustaining air, water, and soil quality as well as the health of natural ecosystems through two specialist practice areas: 1) Environmental Infrastructure and 2) Environmental Management. Our core services in these areas include water supply, distribution, pumping, storage, and treatment; wastewater collection, pumping, management, and treatment; odor and corrosion control; water resources management; water reclamation and reuse; environmental site management; environmental assessment; heritage and natural resource assessment; risk assessment; health and safety assessment; air quality assessment; infiltration and inflow design/management of combined and sanitary sewer overflows; ecotoxicology and good laboratory practice testing; and microbiological testing.

Industrial & Project Management. We provide industrial solutions to clients in the automotive, chemical, consumer products, forestry, food and beverage, bio/pharmaceutical, power generation, pulp and paper, utilities, mining, and general manufacturing sectors. Our core services include planning, engineering, and project management, which we deliver through four specialist practice areas: 1) Manufacturing/Industrial, 2) Energy & Resources, 3) Bio/Pharmaceuticals, and 4) Program & Project Management. We also provide

specialty services in occupational health and safety, system integration, instrumentation and control, electrical energy and power management, facility planning and design, industrial engineering, logistics, materials handling, and commissioning.

Transportation. We offer transportation solutions for the safe and efficient movement of people, vehicles, aircraft, and goods through two specialist practice areas: 1) Transportation and 2) Infrastructure Management & Pavement Engineering. Our core services include project management, planning, and engineering. We prepare transportation master plans for communities and airports; conduct transportation investment studies; and design new and upgraded airport facilities, transit facilities, bridges, urban roadways, freeways, interchanges, rural highways, and rail systems. In addition, we offer expertise in simulation modeling, a comprehensive understanding of transportation demand and supply management principles, extensive use of a range of life cycle cost and statistical analysis techniques, and skills in public consultation and environmental assessment for developing infrastructure facility plans with broad public support. A key feature of our transportation services is our expertise in designing, developing, and implementing integrated infrastructure/asset management systems and work management applications for pavement, bridges, right-of-way features, water, wastewater, stormwater, utilities, and other assets.

Urban Land. We provide planning, engineering, surveying, project management, and landscape architecture solutions, principally for the land development and real estate industries, through three specialist practice areas: 1) Planning & Landscape Architecture, 2) Urban Land Engineering, and 3) Surveys/Geomatics. Our core services include, or relate to, the development of conceptual plans, zoning approval of design infrastructure, transportation planning, traffic engineering, landscape architecture, urban planning, design construction review, and surveying.

Focusing on this combination of project services helps differentiate us from our competitors, allowing us to enhance our presence in new geographic regions and markets and to establish and maintain long-term client relationships. Our strategy for strengthening this element of our business model is to expand the depth of our expertise in our current practice areas and to selectively add complementary new practice areas to our operations.

Life Cycle Solutions

The third element of our business model is the provision of professional services in all five phases of the project life cycle—planning, design, construction, maintenance, and decommissioning. This inclusive approach enables us to deliver services during periods of strong new capital project activity (i.e., design and construction) as well as periods of lower new capital project expenditures (i.e., maintenance and rehabilitation). Beginning with the planning and design stages, we provide conceptual and detailed design services, conduct feasibility studies, and prepare plans and specifications. During the construction phase, we generally act as the owners' representative, providing project management, surveying, and resident engineering services. We focus principally on fee-for-service type work and generally do not act as the contractor or take on construction risk. Following project completion, during the maintenance phase, we provide ongoing professional services for maintenance and rehabilitation projects in areas such as facilities and infrastructure management, facilities operations, and performance engineering. Finally, in the decommissioning phase, we provide solutions and recommendations for taking facilities out of active service.

Our three-dimensional business model approach allows us to provide services to many clients and for many projects, ensuring that we do not rely on a few large projects for our revenue and that no single client or project accounts for more than 5% of our business.

KEY PERFORMANCE DRIVERS AND CAPABILITIES

Our performance depends on our ability to attract and retain qualified people; make the most of market opportunities; finance our growth; find, acquire, and integrate firms and/or new employees into our operations; and achieve top-three market penetration in the geographic areas we serve. Based on our success with these drivers, we believe that we are well positioned to continue to be one of the principal providers of professional design and consulting services in our geographic regions.

People

Because we are a professional services firm, the most important driver of our performance is our people. Our employees create the project solutions we deliver to clients. Consequently, to achieve our goal of becoming a top 10 global design firm, we must grow our workforce through a combination of internal hiring and acquisitions. We measure our success in this area by total staff numbers. In 2006 our employee numbers increased to approximately 6,000 from 5,500 in 2005. Currently, our workforce is made up of about 3,000 professionals, 2,100 technical staff, and 900 support personnel. We expect our employee numbers to continue to increase in 2007 and beyond.

To attract and retain qualified staff, we offer opportunities to be part of "One Team" working on challenging multidiscipline projects with some of the most talented people in our industry. We are continually strengthening and supporting our people-oriented, "One Team. Infinite Solutions." culture. In 2006 we completed a number of activities, including the expansion of our Learning Resource Center with updated content and new in-house programs and training. Launched in 2005, the center is the on-line source for all our learning resources, providing access to programs and material on topics such as employee orientation, people skills and leadership, project management, risk mitigation, business development, and financial management, among others. Going forward, we will continue to update and improve our learning programs and other career development initiatives in response to the needs of our staff.

Our "diversified portfolio" approach to business, operating in different regions and practice areas, and our "One Team" philosophy, using and sharing the best available staff resources across the Company, generally enable us to redeploy a portion of our workforce when faced with changes in local, regional, or national economies or practice area demand. Although there will always be some areas where it will be difficult to find appropriate staff during certain periods, as we increase in size we become better able to address these issues by mobilizing staff from other parts of the Company either through temporary relocation or work sharing. We are continually improving our ability to work on projects from multiple locations through standardized practices and systems, project collaboration, and Web-based technology.

Market Opportunities/Acquisition and Integration

We believe that growth is necessary in order to enhance the depth and breadth of our expertise, broaden our services, increase our shareholder value, provide more opportunities for our employees, and lever our information technology systems. Our strategy is to combine internal growth with the acquisition of firms

that believe in our vision and want to be part of our dynamic Company. Since we became publicly traded on the Toronto Stock Exchange (TSX) in 1994, we have integrated a total of over 4,300 employees into the Stantec family from throughout Canada, the United States, and the Caribbean. In 2006 we completed three acquisitions, including two in the United States, which established a new geographic subregion in New England and platforms for growth in Florida and Texas, and one in Ontario, Canada. In total, these acquisitions added over 315 employees to our operations. We are confident that we can continue to take advantage of acquisition opportunities because we operate in an industry sector that includes more than 100,000 firms and is estimated to generate over US$60 billion in revenue in North America every year, of which we currently have approximately a 1% market share. (According to the Engineering News Record, the largest 500 engineering and architecture companies in the United States alone generated nearly US$60 billion in fees in 2005.)

The integration of acquired firms begins immediately following the acquisition closing date and generally takes between six months and three years. It involves the implementation of our Company-wide information technology and financial management systems as well as provision of "back office" support services from our corporate and regional offices. This approach allows our new staff to focus on their primary responsibility of continuing to serve clients with minimal interruption.

Our acquisition and integration program is managed by a dedicated acquisition team that supports, or is responsible for, the tasks of identifying and valuing acquisition candidates, undertaking and coordinating due diligence, negotiating and closing transactions, and integrating employees and systems following an acquisition.

Financing

Our success also depends on our continuing ability to finance our growth plan. Adequate financing gives us the flexibility to acquire firms that are appropriate to our vision and complement our business model. Since we became publicly traded on the TSX in 1994, we have grown our gross revenue at a compound annual rate of 20.3%. To fund such growth, we require cash generated from both internal and external sources. Historically, we have completed acquisitions using mostly cash and notes while at opportune times raising additional equity to replenish our cash reserves, pay down debt, or strengthen our balance sheet. To date, we have issued additional shares for these purposes on four occasions—in 1997, 2000, 2002, and 2005. Currently, we have a revolving credit facility, expiring on August 31, 2009, that provides us with a line of credit of $160 million. Such financing will help us continue to pursue our growth plan.

Market Penetration

Also key to our success is achieving a certain level of market penetration in the geographic areas we serve. Our goal is to be among the top three service providers in each of our geographic regions and practice areas. With this level of market presence, we are less likely to be affected by downturns in regional economies. Top-three positioning also gives us increased opportunities to work for the best clients, obtain the best projects, and attract the best employees in a region, and is important for building or maintaining the critical mass of staff needed to generate consistent performance and to support regional infrastructure.

RESULTS

Overall Performance

Highlights for 2006

By executing our business strategy in 2006, we generated strong results for the fiscal year as well as growth in gross revenue, net income, and earnings per share as follows:

	2006	2005	$ Change	% Change
	(In millions of Canadian dollars, except per share amounts)			
Gross revenue	816.1	618.0	198.1	32.1%
Net income	60.2	40.6	19.6	48.2%
Earnings per share – basic	1.34	1.02	0.32	31.4%
Earnings per share – diluted	1.31	0.99	0.32	32.3%
Cash flows from operating activities	93.4	57.3	36.1	n/m
Cash flows used in investing activities	(15.6)	(114.6)	99.0	n/m
Cash flows from (used in) financing activities	(77.4)	47.9	(125.3)	n/m

n/m = not meaningful

In our 2005 Management's Discussion and Analysis, we established various ranges of expected performance for 2006. The following table presents the results we achieved in 2006 as we met or exceeded all our established targets:

Measure	Expected Range	Result Achieved
Debt to equity ratio *[note 1]*	At or below 0.5 to 1	(0.03) ✓
Return on equity *[note 2]*	At or above 14%	16.1% ✓
Net income as % of net revenue	At or above 5%	8.5% ✓
Gross margin as % of net revenue	Between 54 and 56%	57.0% ✓✓
Administrative and marketing expenses as % of net revenue	Between 40 and 42%	41.3% ✓
Effective income tax rate	Between 32 and 34%	32.7% ✓

note 1: Debt to equity ratio is calculated as the sum of (1) long-term debt, including current portion, plus bank indebtedness, minus cash divided by (2) shareholders' equity.
note 2: Return on equity is calculated as net income for the year divided by average shareholders' equity over each of the last four quarters.
✓✓ *Better than target*
✓ *Met target*
✗ *Did not meet target*

The following highlights the major financial achievements and strategic activities that occurred in 2006, as well as other factors that contributed to our successful financial performance and strong overall financial condition:

- **A year of record results and continued growth.** In 2006 we posted record gross revenue, net income, and basic and diluted earnings per share.
  - Gross revenue for 2006 was $816.1 million compared to $618.0 million in 2005 and $520.9 nillion in 2004.
  - Net income for 2006 was $60.2 million compared to $40.6 million in 2005 and $30.2 million in 2004.
  - Diluted earnings per share for 2006 were $1.31 compared to $0.99 in 2005 and $0.79 in 2004.

- **Strong balance sheet.** Our consolidated balance sheet position at December 31, 2006, remained solid, with cash and cash equivalents of $28.4 million and long-term debt of $16.2 million compared to cash and cash equivalents of $28.1 million and long-term debt of $86.7 million at December 31, 2005. As at December 31, 2006, $149.9 million of our $160 million revolving credit facility was available for future acquisitions, working capital needs, capital expenditures, and general corporate purposes. Also during the year, we negotiated an extension of the due date of our credit facility to August 2009 and renewed our Normal Course Issuer Bid with the TSX.

- **Increased backlog.** Consolidated revenue backlog at the end of 2006 was $685 million compared to $588 million at the end of 2005 and $380 million at the end of 2004. The outlook for 2007 remains positive.

- **Growth through acquisitions.** The 32.1% growth in gross revenue from 2005 to 2006 and the 48.2% growth in net income from 2005 to 2006 were partially fueled by the integration of acquisitions completed in the second half of 2005 and by the acquisition of Carinci Burt Rogers Engineering, Inc., Dufresne-Henry, Inc., and ACEx Technologies, Inc. in 2006. The acquisitions completed in 2006 added over 315 employees to our Company and increased our growing presence in the United States.

- **Internal growth.** In addition to acquisition activities, internal growth contributed $46.7 million to the $198.1 million increase in gross revenue in 2006. Of note is a $19.9 million increase in our Industrial & Project Management practice area due to internal growth aided by a strong energy sector in western Canada.

- **Continued growth.** On January 12, 2007, we signed a non-binding letter of intent to acquire Vollmer Associates. The successful acquisition of this firm, with headquarters in New York and 24 offices throughout the northeastern United States, will add 650 employees to our Company and complement our Transportation practice area with services in engineering, architecture, planning, landscape architecture, and surveying.

- **Stock split and the issuance of stock options.** In 2006 our shareholders approved the subdivision of our issued common shares on a two-for-one basis, effective for registered common shares at the close of business on May 19, 2006. Under our Company's share option plan and as part of our incentive program, our Board of Directors granted 471,000 stock options to various officers and employees in the Company. These options vest equally over a three-year period and have a contractual life of seven years from the grant date.

- **Addition to the S&P/TSX Composite Index.** During the second quarter of 2006, our Company was added to the S&P/TSX Composite Index.

- **Award-winning projects.** We continue to receive awards for our project work. In particular, in 2006 we received various awards for our sustainable design solutions. For example, the Kamloops Centre for Water quality, the first water treatment plant in Canada to achieve LEED® Gold certification, received numerous awards, including the 2006 Canadian Consulting Engineers Award of Excellence. As well, the Frito-Lay Distribution Center in Rochester, New York, one of only two LEED® Gold-certified buildings in New York State, received the 2006 American Council of Engineering Companies, Engineering Excellence Diamond Award.

Acquisitions

Total consideration for acquisition activity was $18.5 million in 2006 and $228.7 million in 2005. In March 2006, we acquired Carinci Burt Rogers Engineering, Inc., which added over 20 employees in the Greater Toronto Area and strengthened our electrical engineering practice. In April 2006, we acquired Dufresne-Henry, Inc., adding over 270 employees and 12 office locations to our Company. The acquisition of this multidiscipline design firm, which offers services in engineering, planning, environmental sciences, and landscape architecture, complemented our New York operations, expanded our services into four new states in New England, and established an initial presence in Florida. In May 2006, we acquired the communications systems engineering firm ACEx Technologies, Inc., which added over 25 staff and new locations in Oakland, California, and Irving, Texas, and complemented our services in transit, rail and power communications, and control systems engineering. As a result of our investment in our enterprise management system in 2003 as well as subsequent enhancements, we were able to quickly integrate these acquisitions during 2006.

Selected Annual Information

We have demonstrated strong, sustainable financial growth in the last three years as highlighted in the trending of the annual information below:

	Selected Annual Information		
	2006	2005	2004
	(In millions of Canadian dollars, except per share and share amounts)		
Gross revenue *[note]*	816.1	618.0	520.9
Net income	60.2	40.6	30.2
Earnings per share – basic	1.34	1.02	0.82
Earnings per share – diluted	1.31	0.99	0.79
Cash dividends declared per common share	nil	nil	nil
Total assets	630.5	628.8	362.1
Total long-term debt	16.2	86.7	34.0
Outstanding common shares – as at December 31	45,201,785	44,626,262	37,742,170
Outstanding common shares – as at February 21, 2007	45,515,412		
Outstanding share options – as at December 31	1,702,784	1,876,528	2,142,666
Outstanding share options – as at February 21, 2007	1,399,054		

note: The term gross revenue is defined in the Critical Accounting Estimates, Developments, and Measures section of this Management's Discussion and Analysis.

The three acquisitions completed in 2006, the three completed in 2005, and the four completed in 2004 contributed to our year-over-year growth in gross revenue, net income, and basic and diluted earnings per share. As well, internal growth contributed $46.7 million to the $198.1 million increase in gross revenue in 2006 compared to 2005.

Our total assets increased by $1.7 million from 2005 to 2006. A $17.6 million decrease in current assets was offset by a $19.3 million increase in non-current assets. The decrease in current assets was mainly due to a reduction in restricted cash used to fund acquisitions in 2006, repay acquired debt, and pay promissory notes for acquisitions completed in prior years as further described in the Working Capital section below.

The increase in non-current assets was mainly due to a $8.8 million increase in goodwill and a $6.5 million increase in property and equipment resulting from internal growth and growth through acquisitions in the year.

Total assets increased $266.7 million from 2004 to 2005 mainly due to a $158.0 million increase in goodwill and a $21.0 million increase in intangible assets primarily arising from the three acquisitions completed in 2005.

During the third quarter of 2006, we conducted our annual goodwill impairment review. An independent third-party valuator was contracted to assist in assessing the goodwill of our operations in the US East. The review concluded that there was no impairment of goodwill.

Our total liabilities decreased $61.1 million from 2005 to 2006 mainly due to the reduction of our revolving credit facility from $79.0 million at December 31, 2005, to $8.2 million at December 31, 2006. We were able to repay our credit facility from cash generated from operations in the year. From 2004 to 2005, our credit facility increased $55.0 million mainly to finance the acquisitions in 2005.

Results of Operations

Our Company operates in one reportable segment—Consulting Services. We provide knowledge-based solutions for infrastructure and facilities projects through value-added professional services principally under fee-for-service agreements with clients.

The following table summarizes our key operating results on a percentage of net revenue basis and the percentage increase in the dollar amount of these results from year to year:

	Percentage of Net Revenue			Percentage Increase *	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Gross revenue	115.3%	117.8%	116.0%	32.1%	18.6%
Net revenue	100.0%	100.0%	100.0%	35.0%	16.8%
Direct payroll costs	43.0%	44.7%	45.8%	29.9%	14.1%
Gross margin	57.0%	55.3%	54.2%	39.1%	19.0%
Administrative and marketing expenses	41.3%	40.6%	40.9%	37.1%	15.8%
Depreciation of property and equipment	2.2%	2.4%	2.7%	26.0%	3.4%
Amortization of intangible assets	0.9%	0.5%	0.2%	141.2%	174.2%
Net interest expense	0.3%	0.1%	0.6%	231.3%	(79.6%)
Share of income from associated companies	(0.1%)	0.0%	(0.1%)	52.4%	(51.4%)
Foreign exchange (gains) losses	0.0%	(0.1%)	0.0%	(83.5%)	377.7%
Other income	(0.2%)	(0.1%)	0.0%	319.8%	131.6%
Income before income taxes	12.6%	11.9%	9.9%	43.1%	39.9%
Income taxes	4.1%	4.2%	3.2%	33.7%	51.2%
Net income	8.5%	7.7%	6.7%	48.2%	34.6%

** % Increase calculated based on the dollar change from the comparable period.*

Our gross and net revenue grew at a faster rate during 2006 than during 2005 mainly due to the size of acquisitions that occurred in the second half of 2005 and in the first two quarters of 2006. Administrative and marketing expenses, amortization of intangible assets, and net interest expense grew at greater rates than the rate of growth in revenue as further explained in the Administrative and Marketing Expenses, Amortization of Intangible Assets, and Net Interest sections below.

Gross and Net Revenue

The following table summarizes the impact of acquisitions, internal growth, and foreign exchange on our gross and net revenue for 2006 compared to 2005 and for 2005 compared to 2004. For definitions of gross and net revenue, refer to the Definition of Non-GAAP Measures in the Critical Accounting Estimates, Developments, and Measures section of this discussion and analysis.

Gross Revenue	**2006 vs. 2005**	**2005 vs. 2004**
	(In millions of Canadian dollars)	
Increase (decrease) due to:		
Acquisitions growth	165.4	88.1
Net internal growth	46.7	22.8
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(14.0)	(13.8)
Total increase over prior year	198.1	97.1

Net Revenue	**2006 vs. 2005**	**2005 vs. 2004**
	(In millions of Canadian dollars)	
Increase (decrease) due to:		
Acquisitions growth	148.7	65.2
Net internal growth	46.8	22.1
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(12.2)	(11.9)
Total increase over prior year	183.3	75.4

Gross revenue earned in Canada during 2006 increased to $461.3 million from $380.5 million in 2005 and $325.8 million in 2004. Gross revenue generated in the United States in 2006 increased to $348.0 million compared to $233.4 million in 2005 and $190.4 million in 2004. Gross revenue earned outside Canada and the United States in 2006 was $6.8 million, compared to $4.1 million in 2005 and $4.7 million in 2004. The increase in revenues in both our US- and Canadian-based operations was positively impacted by the acquisitions completed in 2006 and 2005.

The following table summarizes our gross revenue by practice area for 2006, 2005, and 2004:

Practice Area Gross Revenue	**2006**	**% of Consulting Services Gross Revenue**	**% Change 2006 vs. 2005**	**2005**	**% of Consulting Services Gross Revenue**	**% Change 2005 vs. 2004**	**2004**	**% of Consulting Services Gross Revenue**
	(millions of C$)			*(millions of C$)*			*(millions of C$)*	
Buildings	184.2	22.6%	25.0%	147.4	23.9%	50.3%	98.1	18.9%
Environment	149.4	18.3%	44.5%	103.4	16.7%	(1.1%)	104.6	20.1%
Industrial & Project Management	94.8	11.6%	39.8%	67.8	11.0%	18.9%	57.0	11.0%
Transportation	106.0	13.0%	17.0%	90.6	14.6%	(0.9%)	91.4	17.6%
Urban Land	281.7	34.5%	34.9%	208.8	33.8%	23.7%	168.8	32.4%
Total Consulting Services	816.1	100.0%	32.1%	618.0	100.0%	18.9%	519.9	100.0%

note: Comparative figures are restated due to a realignment of practice areas in 2006.

As indicated above, our gross revenue was impacted by acquisitions, net internal growth, and the effect of foreign exchange rates on revenue earned by our foreign subsidiaries. The impact of these factors on gross revenue earned by practice area is summarized below:

Practice Area Gross Revenue	2006 Compared to 2005 Total Change	2006 Compared to 2005 Change Due to Acquisitions	2006 Compared to 2005 Change Due to Net Internal Growth and Foreign Exchange	2005 Compared to 2004 Total Change	2005 Compared to 2004 Change Due to Acquisitions	2005 Compared to 2004 Change Due to Net Internal Growth and Foreign Exchange
	(In millions of Canadian dollars)			(In millions of Canadian dollars)		
Buildings	36.8	38.7	(1.9)	49.3	43.6	5.7
Environment	46.0	32.6	13.4	(1.2)	8.1	(9.3)
Industrial & Project Management	27.0	8.9	18.1	10.8	7.5	3.3
Transportation	15.4	11.7	3.7	(0.8)	(0.3)	(0.5)
Urban Land	72.9	73.5	(0.6)	40.0	29.2	10.8
Total Consulting Services	198.1	165.4	32.7	98.1	88.1	10.0

note: Comparative figures are restated due to a realignment of practice areas in 2006.

The following summarizes the acquisitions completed from 2005 to 2006 that affected the acquisition growth of each of our practice areas:

- Buildings: Dufresne-Henry, Inc. (May 2006); Carinci Burt Rogers Engineering, Inc. (March 2006); Keen Engineering Co. Ltd. (October 2005); The Keith Companies, Inc. (September 2005); and CPV Group Architects & Engineers Ltd. (August 2005)

- Environment: Dufresne-Henry, Inc. (May 2006) and The Keith Companies, Inc. (September 2005)

- Industrial & Project Management: The Keith Companies, Inc. (September 2005) and Dufresne-Henry, Inc. (May 2006)

- Transportation: ACEx Technologies, Inc. (May 2006) and Dufresne-Henry, Inc. (May 2006)

- Urban Land: The Keith Companies, Inc. (September 2005) and Dufresne-Henry, Inc. (May 2006)

All of our practice areas generate a portion of their gross revenue in the United States. The strengthening of the Canadian dollar against the US dollar in 2006 compared to 2005 and in 2005 compared to 2004 had a negative impact on the change in gross revenue by practice area year over year. The average exchange rate for the Canadian dollar relative to the US dollar increased by approximately 6.0% from 2005 to 2006 (US\$0.83 to US\$0.88) and by 9.2% from 2004 to 2005 (US\$0.76 to US\$0.83).

Buildings

Gross revenue for the Buildings practice area grew by 25.0% from 2005 to 2006. Of the \$36.8 million increase in gross revenue in 2006, \$25.1 million, \$6.3 million, \$4.6 million, \$1.4 million, and \$1.3 million were due to revenue earned from the acquisition of Keen Engineering Co. Ltd., CPV Group Architects & Engineers Ltd., Carinci Burt Rogers Engineering, Inc., The Keith Companies, Inc. (Keith), and Dufresne-Henry, Inc., respectively. Foreign exchange negatively affected the change in gross revenue from 2005

to 2006 by $1.6 million. In 2006 the Buildings practice area continued to secure larger projects and to experience higher project volumes. In particular, it continued to be very active in western Canada, resulting in a strong backlog. For example, in Q3 06 we secured a multimillion-dollar contract to provide mechanical, electrical, and civil engineering services for the development of an acute care hospital facility—the Legacy project—in Vancouver, British Columbia. In addition, we were recently awarded a multimillion-dollar contract to design a three-module "campus" style facility for a banking institution in Calgary, Alberta. To assist in meeting increased demand, the practice area made use of work-sharing initiatives across the Company in 2006. We believe the Buildings practice area is well positioned to provide sustainable design expertise and solutions to clients into 2007.

Gross revenue for the Buildings practice area grew by 50.3% from 2004 to 2005. Of the $49.3 million increase in gross revenue in 2005, $43.6 million was due to acquisition growth, and $5.7 million was due to internal growth and foreign exchange. In 2005 the presence of strong economies in regions in which we operate contributed to growth in this practice area, as well as our transition from a group of local and regional offices into a national practice able to provide sought-after expertise in markets such as health care, research, education, and aviation.

Environment

Gross revenue for the Environment practice area grew by 44.5% from 2005 to 2006. Of the $46.0 million increase in gross revenue in 2006, $20.9 million and $11.7 million were due to revenue earned from the acquisition of Keith and Dufresne-Henry, Inc., respectively. In addition, internal growth accounted for $15.7 million of the increase in gross revenue in 2006, offset by a $2.3 million negative impact from foreign exchange. The Environment practice area remained strong due to larger projects, higher labor utilization rates, and the strong economy in western Canada. The increased awareness of governments and the public of environmental issues may present opportunities for this practice area. As well, the Environment practice area is positioning itself to explore opportunities in odor and corrosion control and hazardous waste remediation.

Gross revenue for the Environment practice area decreased by 1.1% from 2004 to 2005. In 2005 the Environment practice area focused on improving the operational effectiveness of underperforming operations. During the last half of 2004, certain of our operations in the Environment practice area were curtailed through staff reductions, resulting in a decrease in the level of revenue generated in 2005. This strategic realignment enhanced the Environment practice area's ability to improve its gross revenue and gross margin.

Industrial & Project Management

Gross revenue for the Industrial & Project Management practice area grew by 39.8% from 2005 to 2006. Of the $27.0 million increase in gross revenue in 2006, $8.9 million was due to acquisitions. The revenue earned from the industrial and project management practice acquired from the Keith acquisition accounted for $8.1 million of the acquisition growth. In addition, internal growth accounted for $20.1 million of the increase in gross revenue in 2006, offset by a $2.0 million negative impact from foreign exchange. The internal growth in 2006 was primarily due to securing projects in the oil sands sector in western Canada. For example, during the year, the practice area completed a multimillion-dollar contract to provide services for the development of facilities and infrastructure for the Fort Hills Oil Sands project in northern Alberta. We believe the oil sands sector in western Canada will remain strong into 2007.

The Industrial & Project Management practice area continues to position itself to capture more of the support facilities and infrastructure segment of the energy and resources sector, projects in the power telecommunications sector, and opportunities that may arise from an expected increase in construction activity for ethanol and biomass facilities in Canada as a result of recent federal government initiatives. Since this practice area continues to work on projects requiring wind and solar energy expertise, it is also well positioned to capture opportunities in the renewable electrical energy sector resulting from the 2005 Energy Act in the United States. Due to competition for qualified staff, especially in western Canada, this practice area is exploring new strategies for attracting additional people.

Gross revenue for the Industrial & Project Management practice area grew by 18.9% from 2004 to 2005. Of the $10.8 million increase in gross revenue in 2005, $5.8 million was due to revenue earned from the industrial and project management practice acquired from the Sear-Brown acquisition.

Transportation

Gross revenue for the Transportation practice area grew by 17.0% from 2005 to 2006. Of the $15.4 million increase in gross revenue in 2006, $9.2 million and $2.5 million were due to revenue earned from the acquisition of Dufresne-Henry, Inc. and ACEx Technologies, Inc., respectively. In addition, internal growth accounted for $6.6 million of the increase in gross revenue in 2006, offset by a $2.9 million negative impact from foreign exchange. The implementation of the new six-year, US$286.4 billion Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) signed on August 10, 2005, increased the funds available for transportation projects, which started to translate into contracts for our Company in 2006. For example, during the year, we renewed a five-year, $11 million contract with the U.S. Department of Transportation to conduct long-term pavement performance studies. The outlook for the Transportation practice area in Canada remains strong, in particular with recent announcements of government funding such as the $2.4 billion Canadian Highways and Border Infrastructure Fund.

Gross revenue for the Transportation practice area decreased by 0.9% from 2004 to 2005. The $0.8 million decrease was mainly due to delays in US federal transportation funding in 2005.

Urban Land

Gross revenue for the Urban Land practice area grew by 34.9% from 2005 to 2006. Of the $72.9 million increase in gross revenue in 2006, $70.2 million and $3.3 million were the result of revenue earned from the acquisition of Keith and Dufresne-Henry, Inc., respectively. In addition, internal growth accounted for $4.7 million of the increase in gross revenue in 2006, offset by a $5.3 million negative impact from foreign exchange. The Keith and Dufresne-Henry Inc. acquisitions increased our presence in the urban land market in the United States. We offer urban land services primarily in Alberta, southern Ontario, and California and have a more modest presence in Arizona, Nevada, Utah, Colorado, North Carolina, and Florida and a small presence in other Canadian and eastern US markets. Our three core regions, which account for approximately 75% of our business, are stable or experiencing moderate declines in housing starts. Due to our strong market position in these regions, our overall performance in urban land was strong in 2006, and we anticipate a continuing stable market in 2007.

Gross revenue for the Urban Land practice area grew by 23.7% from 2004 to 2005. The practice area grew both internally and through acquisitions in 2005. Of the $40.0 million increase in gross revenue in 2005, $29.2 million was the result of acquisitions, of which $28.4 million was earned from the urban land practice acquired from the Keith acquisition.

Gross Margin

For a definition of gross margin, refer to the Definition of Non-GAAP Measures in the Critical Accounting Estimates, Developments, and Measures section below. Gross margin increased to 57.0% in 2006 from 55.3% in 2005 and 54.2% in 2004. Our 2006 gross margin exceeded the anticipated range of 54 to 56% set out in our 2005 Annual Report. Factors that have contributed to our improved gross margins over the last three years include the following:

- Improved markets for our services with corresponding increases in fee rates.

- Improved project management through enhanced staff training and support systems. This improvement has been achieved through the expansion of our on-line Learning Resource Center with updated content and in-house programs and training in project and financial management and through the use of improved information available from the enterprise management systems we implemented in 2003 as well as subsequent upgrades.

- The implementation of an improved system for invoicing project-related administrative costs in 2005. Following this implementation, we continued to reflect these recoveries as part of revenue, but we now report the costs in administrative and marketing expenses. This has contributed to both the increased gross margin and the increased administrative and marketing expenses in 2006.

The following table summarizes our gross margin percentages by practice area for 2006, 2005, and 2004:

Practice Area Gross Margin	2006	2005	2004
Buildings	56.5%	55.9%	52.6%
Environment	58.4%	56.6%	55.2%
Industrial & Project Management	51.0%	49.2%	48.7%
Transportation	55.7%	56.1%	55.9%
Urban Land	58.7%	56.1%	55.6%

note: Comparative figures are restated due to a realignment of practice areas in 2006.

Gross margins in all practice areas improved from 2004 to 2006, with the exception of a modest decline of 0.4% in the Transportation practice area from 2005 to 2006. The increases in gross margins can be attributed to the same factors discussed above. Because of the nature of our business model, which is based on diversifying our operations across geographic regions, practice areas, and all phases of the infrastructure and facilities project life cycle, there will continue to be fluctuations in the margins reported from year to year depending on the mix of projects in progress during any year.

Administrative and Marketing Expenses

Administrative and marketing expenses as a percentage of net revenue were 41.3% in 2006 compared to 40.6% in 2005. The increase was mainly due to an additional $3.2 million of performance and retention bonuses arising from acquisitions completed in the current and prior years. As well, when we implemented an improved system for invoicing project-related administrative costs in 2005, we continued to reflect these recoveries as part of revenue, but we now report the costs in administrative and marketing expenses. This has contributed to both the increased gross margin and the increased administrative and marketing expenses in 2006. The 41.3% in 2006 was within the expected range of 40 to 42% set out in our 2005 Annual Report.

Administrative and marketing expenses as a percentage of net revenue were 40.6% in 2005 compared to 40.9% in 2004. This percentage was lower in 2005 due to a $4.0 million reduction of our allowance for doubtful accounts. This adjustment was based on improved information available on our historical loss experience. As well, our enhanced processes for identifying projects that qualify for Scientific Research and Experimental Development tax credits in Canada reduced our administrative and marketing expenses by $1.2 million in 2005. The above reductions were offset by a $4.6 million increase in our professional liability claims cost, which was based on the results of an independent actuarial review completed in 2005.

Our administrative and marketing expenses may fluctuate from year to year as a result of the amount of non-billable staff time allocated to administration and marketing, which is influenced by the ratio of work carried out on proposals and other non-billable administrative and marketing activities during the year.

Depreciation of Property and Equipment

Depreciation of property and equipment as a percentage of net revenue was 2.2% in 2006, 2.4% in 2005, and 2.7% in 2004. Depreciation expense in 2006 increased at a lower rate than that of net revenue. The $3.2 million increase in depreciation from 2005 to 2006 was primarily due to the addition of property and equipment from acquisitions made in the fourth quarter of 2005 and in 2006. The reduction in depreciation expense as a percentage of net revenue in 2005 related to the sale of our office building in Edmonton, Alberta, during the fourth quarter of 2004.

Amortization of Intangible Assets

The timing of completed acquisitions, the size of acquisitions, and the type of intangible assets acquired affect the amount of amortization of intangible assets in each year. Client relationships and other intangible assets are amortized over estimated useful lives ranging from 10 to 15 years, whereas contract backlog is amortized over an estimated useful life of generally less than one and a half years. As a result, the impact of amortization of contract backlog can be significant in the two to six quarters following an acquisition. The following table summarizes the amortization of identifiable intangible assets:

	2006	2005	2004
	(In thousands of Canadian dollars)		
Amortization of client relationships	2,401	1,050	579
Amortization of backlog	3,508	1,349	239
Other	223	143	109
Total amortization of intangible assets	6,132	2,542	927

The increase of $3.6 million between 2005 and 2006 was primarily due to the intangible assets acquired from the Keith and Keen Engineering Co. Ltd. acquisitions in September and October of 2005. Of the $6.1 million amortized in 2006, $4.1 million was related to the Keith acquisition.

Net Interest Expense

The increase of $1.3 million in net interest expense in 2006 compared to 2005 was a result of our long-term debt balance throughout the first two quarters of 2006 being higher than in the same period in 2005 and the prevailing interest rates in 2006 being higher than in 2005. Near the end of the third quarter of 2005, we accessed our revolving credit facility to finance the Keith acquisition. At December 31, 2005, $79.0 million was used on our credit facility. At December 31, 2006, $8.2 million was used on our credit facility. In 2006 we repaid our credit facility using cash generated from operations. Depending on the form

under which the credit facility is accessed and certain financial covenant calculations, rates of interest may vary among Canadian prime, US base rate, or LIBOR or bankers acceptance rates plus 65 or 85 basis points. Our average interest rate was 6.0% at December 31, 2006, compared to 4.34% at December 31, 2005. We estimate that, based on our loan balance at December 31, 2006, a 1% change in interest rates would impact our annual earnings per share by less than $0.01.

The reduction of $2.2 million in net interest expense in 2005 compared to 2004 was a result of maintaining a positive net cash position during the first three quarters of 2005 compared to a position of bank indebtedness during the same period in 2004. In addition, our total long-term debt position during the first three quarters of 2005 was less than it was during the same period in 2004, which contributed to the reduction in overall interest expense.

Foreign Exchange Gains

We reported a foreign exchange gain of $0.1 million in 2006, compared to $0.4 million in 2005 and $0.1 million in 2004. These foreign exchange gains arose on the translation of the foreign-denominated assets and liabilities held in our Canadian companies and in our non-US-based foreign subsidiaries. We minimize our exposure to foreign exchange fluctuations by matching US-dollar assets with US-dollar liabilities and, when appropriate, by entering into forward contracts to buy or sell US dollars in exchange for Canadian dollars.

Throughout most of 2004, we used US-dollar-denominated debt to minimize our exposure to foreign currency fluctuations. Late in 2004, due to an improvement in our cash position, we were able to reduce the amount of this debt. Therefore, in order to minimize our exposure to foreign exchange fluctuations, we matched US-dollar assets with US-dollar liabilities and entered into forward contracts to buy or sell US dollars in exchange for Canadian dollars. Near the end of the third quarter of 2005, we borrowed US dollars to complete the Keith acquisition. This US-dollar debt offset our investment in US-dollar net assets and eliminated the need to enter into forward contracts. In 2006 we began repaying the US-dollar debt using cash generated from operations, which created the need to enter into forward contracts again in the last quarter of 2006. As at December 31, 2006, we had entered into a foreign currency forward contract that provided for the sale of US$4.5 million on January 12, 2007, at the rate of 1.1608 per US dollar. The fair value of this contract, estimated using market rates at December 31, 2006, was a loss of $19,167.

In 2004 the Canadian dollar rose from US$0.77 at the beginning of the year to US$0.83 at the end of the year. We recorded a $0.1 million foreign exchange gain because our matching of US-dollar assets and liabilities limited our exposure. During 2005, the Canadian dollar continued to strengthen to US$0.86, and we recorded a gain of $0.4 million since there was a period at the closing of the Keith transaction when our US-dollar-denominated liabilities exceeded our US-dollar-denominated assets. Approximately $0.4 million of this gain was reflected in Q3 05. The exchange rate at the end of December 31, 2006, was US$0.86, the same rate as at December 31, 2005, and we recorded a $0.1 million gain in 2006 due to our limited exposure throughout the year.

Income Taxes

Our effective income tax rate for 2006 was 32.7% compared to 35.0% for 2005 and 32.4% for 2004. In our 2005 Management's Discussion and Analysis, we anticipated that our effective tax rate would be in the range of 32.0 to 34.0% depending on our estimated earnings in each of our taxing jurisdictions. We review our estimated income tax rate quarterly and adjust it based on changes in statutory rates in the jurisdictions

in which we operate as well as on our estimated earnings in each of these jurisdictions. In 2006 the Quebec government enacted Bill 15 to amend the Quebec Taxation Act, legislation that retroactively eliminated the benefit of certain financing trust arrangements. As a result of this legislative change, we recorded an additional $1.0 million of income tax expense in Q2 06 related to 2005. The impact of this increase was offset by the relative amount of income earned in our low tax rate jurisdictions, resulting in an effective income tax rate below the middle of our expected range.

Throughout 2005 we maintained our estimated rate consistently at 35.0%. The 32.4% rate for 2004 was favorably impacted by the additional income reflected in our regulated insurance subsidiary in Q4 04; a portion of that income was subject to tax at lower rates, resulting in a 1.2% reduction of our consolidated tax rate.

Quarterly Trends and Fourth Quarter Results

The following is a summary of our quarterly operating results for the last two fiscal years.

	Quarterly Operating Results *(In millions of Canadian dollars, except per share amounts)*							
	2006				2005			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Gross revenue	211.8	210.2	208.8	185.3	180.6	146.1	150.2	141.1
Net revenue	180.6	182.0	182.2	163.1	151.9	125.9	127.7	119.1
Net income	15.6	16.5	16.7	11.4	8.0	12.8	13.1	6.7
EPS – basic	0.35	0.36	0.37	0.25	0.18	0.33	0.34	0.18
EPS – diluted	0.34	0.36	0.36	0.25	0.17	0.32	0.34	0.17

The quarterly earnings per share on a basic and diluted basis are not additive and may not equal the annual earnings per share reported. This is due to the effect of shares issued or repurchased during the year on the weighted average number of shares. Diluted earnings per share on a quarterly and annual basis are also affected by the change in the market price of our shares, since we do not include in dilution options whose exercise price is not in the money.

The following items impact the comparability of our quarterly results:

	Q4 06 vs. Q4 05	Q3 06 vs. Q3 05	Q2 06 vs. Q2 05	Q1 06 vs. Q1 05
	(In millions of Canadian dollars)			
Increase (decrease) in gross revenue due to:				
Acquisitions growth	12.0	51.3	55.3	46.8
Net internal growth	21.4	16.3	8.5	0.5
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(2.2)	(3.5)	(5.2)	(3.1)
Total increase in gross revenue	31.2	64.1	58.6	44.2

Fourth Quarter Results

During Q4 06, our gross revenue increased by $31.2 million, or 17.3%, to $211.8 million compared to $180.6 million for the same period in 2005. Approximately $12.0 million of this increase resulted from acquisitions completed in 2005 and 2006 and internal growth of $21.4 million, offset by $2.2 million in foreign exchange due to the strengthening of the Canadian dollar during 2005 and 2006.

Net income during Q4 06 was strong, increasing by $7.6 million, or 95.7%, from the same period in 2005. Basic earnings per share in Q4 06 increased by $0.17, or 94.4%, compared to the same period in Q4 05. These increases in net income and earnings per share were mainly due to the growth in gross revenue mentioned above as well as a quarterly gross margin of 58.3% compared to 53.5% for the same period last year. Due to the nature of our business model, which is based on diversifying our operations across geographic regions, practice areas, and all phases of the infrastructure and facilities project life cycle, there will continue to be fluctuations in our gross margin from period to period depending on the mix of projects during any quarter. In addition, our 2005 gross margin was low since we integrated approximately 1,000 staff into our Company in Q4 05 from the Keith and Keen Engineering Co. Ltd. acquisitions, who were then required to learn new practices and processes and understand new systems. Such a learning curve results in decreased productivity until the learning is complete.

Quarterly Trends

During Q1 06, our gross revenue grew $44.2 million, or 31.3%, compared to Q1 05. Approximately $46.8 million of this increase was a result of the CPV Group Architects & Engineers Ltd., Keith, and Keen Engineering Co. Ltd. acquisitions, which occurred in the last half of 2005. With the integration of project work for over 1,000 employees into our operations from these acquisitions, net income increased by $4.7 million in Q1 06, and basic earnings per share increased by $0.07 compared to the same period in 2005.

During Q2 06, our gross revenue grew by $58.6 million, or 39.1%, compared to Q2 05. Approximately $55.3 million of this increase was a result of the three acquisitions completed in the last half of 2005 and of the Carinci Burt Rogers Engineering, Inc., Dufresne-Henry, Inc., and ACEx Technologies, Inc. acquisitions completed in the first half of 2006. Net income increased by $3.6 million in Q2 06 compared to the same period in 2005, and basic earnings per share increased by $0.03 compared to the same period last year. Net income and earnings per share would have increased $7.6 million and $0.10, respectively, had it not been for a $4.0 million positive adjustment made in Q2 05 related to management's revised estimate of provision for doubtful accounts receivable. That revised estimate was based on improved information on historical loss experience that became available to us through the use of our enterprise management system.

During Q3 06, our gross revenue grew by $64.1, or 43.9%, compared to Q3 05. Approximately $51.3 million of this increase was a result of the three acquisitions completed in the last half of 2005 and of the Carinci Burt Rogers Engineering, Inc., Dufresne-Henry, Inc., and ACEx Technologies Inc. acquisitions completed in the first half of 2006. As we integrated the staff and project work from these acquisitions, net income increased by $3.7 million, or 27.9%, in Q3 06 compared to the same period in 2005, and basic earnings per share increased by $0.03 compared to the same period last year.

Liquidity and Capital Resources

The following table represents summarized working capital information as at December 31, 2006, compared to December 31, 2005:

	Dec 31, 2006	Dec 31, 2005	% Change
	(In millions of Canadian dollars, except ratios)		
Current assets	262.8	280.4	(6.3%)
Current liabilities	(155.7)	(157.8)	(1.3%)
Working capital	107.1	122.6	(12.6%)
Current ratio	1.69	1.78	n/a

note: Working capital is calculated by subtracting current liabilities from current assets. Current ratio is calculated by dividing current assets by current liabilities.

Our cash flows from operating, investing, and financing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized in the following table:

	2006	2005	2004	$ Change 2006 vs. 2005	$ Change 2005 vs. 2004
	(In millions of Canadian dollars)				
Cash flows from operating activities	93.4	57.3	77.4	36.1	(20.1)
Cash flows used in investing activities	(15.6)	(114.6)	(10.2)	99.0	(104.4)
Cash flows from (used in) financing activities	(77.4)	47.9	(36.0)	(125.3)	83.9

Our liquidity needs can be met through a variety of sources, including cash generated from operations, long- and short-term borrowings from our $160 million credit facility, and the issuance of common shares. Our primary use of funds is for operational expenses, acquisitions, and sustaining capital spending on property and equipment. We continue to generate cash flows from operations to assist our acquisition growth. In addition, we continue to manage according to the established management guideline of maintaining a debt to equity ratio of less than 0.5 to1.

Working Capital

Our working capital at the end of 2006 was $107.1 million, compared to $122.6 million in 2005. Current assets decreased by $17.6 million, and current liabilities decreased by $2.1 million. The decrease in current assets was partly due to a decrease in restricted cash. A portion of the cash acquired as part of the Keith acquisition (US$26.1 million) was subject to restrictions outlined in the merger agreement to allow the transaction to qualify as a reorganization under US tax regulations. This cash could not be used, directly or indirectly, to pay debt incurred with respect to financing the acquisition of Keith. Generally, the restricted cash was to be used to finance future acquisitions as well as future capital expenditures. During 2006, the restricted cash decreased by $19.8 million to an outstanding balance of $1.5 million (US$1.3 million) at December 31, 2006. The $19.8 million was used to fund acquisitions completed in 2006, repay debt acquired in 2006, and pay promissory notes for acquisitions completed in prior years.

Cash Flows From Operating Activities

Our cash flows from operating activities were up by $36.1 million in 2006 from 2005 and down by $20.1 million from 2004 to 2005. Cash flows for 2006 were positively affected by a net increase of $46.7 million in cash receipts from clients less cash paid to suppliers and employees. This increase was mainly due to additional revenue generated by the acquisitions completed in the second half of 2005 and in the first three quarters of 2006. As we successfully integrated the acquisitions made in the second half of 2005, there was a reduction in our combined investment in costs and estimated earnings in excess of billings (work in progress) and in accounts receivable from 101 days of revenue at the end of 2005 to 92 days of revenue at the end of 2006.

Offsetting the above increase in operating cash flows in 2006 was a $9.2 million increase in net income taxes paid in 2006 and a $1.4 million increase in interest paid. Our income tax payments increased in 2006 to cover the higher income tax liability outstanding at the end of 2005 as well as the increased income tax installments required for 2006.

The decrease in operating cash flows in 2005 was reflective of a significant increase in operating cash flows in 2004. The implementation of our enterprise management system in the fourth quarter of 2003 contributed to the significant reduction in cash flows from operations for 2003 since our investment in costs and estimated earnings in excess of billings and in accounts receivable climbed to 119 days of revenue. The subsequent reduction to 101 days as at December 31, 2004, led to the spike in operating cash flows in 2004.

Cash Flows Used In Investing Activities

Cash flows used in investing activities decreased by $99.0 million from 2005 to 2006 and increased by $104.4 million from 2004 to 2005. In 2006 we used $12.2 million to finance acquisitions completed during the year versus $100.4 million used in 2005 and $18.8 million used in 2004. The use of cash and cash equivalents for acquisitions in 2006 was offset by a drawdown of restricted cash that we acquired in connection with the Keith acquisition.

Offsetting the reduction of cash used in investing in 2006 compared to 2005 was a $1.9 million increase in purchases of property and equipment. One factor that contributed to this increase was a $2.9 million expenditure on improvements to our offices in Vancouver, British Columbia, and Edmonton, Alberta, during the year. Our 2005 investment activities increased compared to 2004 due to the use of $1.7 million for the expansion and improvement of our office in Winnipeg, Manitoba. In 2004 we recorded a cash inflow from the sale of our Edmonton office building as well as our interest in Goodfellow EFSOP™ technology.

As a professional services organization, we are not capital intensive. Our capital expenditures have historically been made primarily for property and equipment including such items as leasehold improvements, computer equipment and business information systems software, furniture, and other office and field equipment. Our cash outflows for property and equipment were $18.9 million, $17.0 million, and $17.5 million in each of 2006, 2005, and 2004, respectively. Approximately 42.0% of these cash flows in 2006 related to buildings and leasehold improvements and computer equipment and business information systems software. Our capital expenditures during 2006 were financed by cash flows from operations. We expect our total capital expenditures in 2007 to be in the range of $27 to $30 million.

Cash Flows Used In Financing Activities

Cash flows used in financing activities increased by $125.3 million from 2005 to 2006 and decreased by $83.9 million from 2004 to 2005. In 2006 we generated sufficient cash from our operations to reduce the amount outstanding on our credit facility by $85.6 million and repay $1.8 million of our acquired debt. At December 31, 2006, we had $149.9 million of our $160 million credit facility available for future use. As well, we used $1.0 million to repurchase shares under our Normal Course Issuer Bid in 2006. The above use of cash was offset by $1.9 million generated from options exercised during the year.

In 2005 we had cash flows from financing since we accessed $95.9 million of our new credit facility for acquisition purposes, in particular, the Keith acquisition. During 2005, we replaced our credit facility by repaying $24.0 million outstanding on long-term debt and entering into a $160 million revolving credit facility that expires on August 31, 2009. This facility is available for acquisitions, working capital needs, capital expenditures, and general corporate purposes. Depending on the form under which the credit facility is accessed and certain financial covenant calculations, rates of interest will vary between Canadian prime, US base rate, or LIBOR rate or bankers acceptances rates plus 65 or 85 basis points. The average interest rate on the amounts outstanding at December 31, 2006, was 6.0%. The new credit facility contains financial tests and other covenants with which we must comply at each quarter-end. In particular, we must satisfy the following specified ratios: 1) the senior debt to EBITDA ratio must not exceed 2.5 to 1 at any time and 2) the EBITDAR to debt service ratio must not be less than 1.25 to 1 at any time. EBITDA, EBITDAR, and EBITDAR to debt service ratio are defined in the Definition of Non-GAAP Measures in the Critical Accounting Estimates, Developments, and Measures section of this analysis. We were in compliance with these covenants as at and throughout the year ended December 31, 2006. During 2005, we also used $2.0 million for share issue costs related to the shares issued in conjunction with the acquisition of Keith. Options exercised for cash in 2005 generated cash of $1.0 million.

Shareholders' Equity

Our shareholders' equity increased by $62.8 million in 2006 and by $159.0 million in 2005. The following table summarizes the reasons for these increases:

	2006	2005
	(In millions of Canadian dollars)	
Beginning shareholders' equity	348.1	189.1
Net income for the year	60.2	40.6
Change in cumulative translation account	0.7	(6.6)
Share options exercised for cash	1.9	1.0
Recognition of fair value of share-based compensation	1.0	1.3
Shares repurchased under Normal Course Issuer Bid	(1.0)	(0.2)
Shares issued on the Keith acquisition	–	123.4
Restricted shares issued on the Keith acquisition	–	2.2
Share issue costs	–	(1.5)
Deferred stock compensation arising on the Keith acquisition	–	(1.2)
Total change	62.8	159.0
Ending shareholders' equity	410.9	348.1

The change arising on the translation of our US-based subsidiaries in 2006 was only $0.7 million due to the Canadian dollar remaining at US$0.86 at the end and beginning of the year in relation to the US dollar. The $6.6 million change in 2005 was due to the continued strengthening of the Canadian dollar—from US$0.83 to US$0.86—in relation to the US dollar during the year.

In 2006, under our Company's share option plan and as part of our incentive program, our Board of Directors granted 471,000 stock options to various officers and employees of the Company. These options vest equally over a three-year period and have a contractual life of seven years from the grant date.

Our Normal Course Issuer Bid on the TSX was renewed in 2006 and allows us to repurchase up to 2,258,754 shares. We continue to believe that, from time to time, the market price of our common shares does not fully reflect the value of our business or future business prospects and that, at such times, outstanding common shares are an attractive, appropriate, and desirable use of available Company funds. In 2006 we purchased 51,600 common shares at an average price of $19.69 per share for an aggregate price of $1.0 million. In 2005 we purchased 13,600 common shares at an average price of $14.34 per share for an aggregate price of $195,000.

Other

Outstanding Share Data

As at December 31, 2006, there were 45,201,785 common shares and 1,702,784 share options outstanding. During the period of December 31, 2006, to February 21, 2007, no shares were repurchased under our Normal Course Issuer Bid; 298,066 share options were exercised; 5,664 share options were canceled; and 15,561 common shares were issued upon the vesting of restricted shares issued on the Keith acquisition. As at February 21, 2007, there were 45,515,412 common shares and 1,399,054 share options outstanding.

Contractual Obligations

As part of our continuing operations, we enter into long-term contractual arrangements from time to time. The following table summarizes the contractual obligations due on our long-term debt, other liabilities, and operating lease commitments as of December 31, 2006:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1–3 years**	**4–5 years**	**After 5 years**
	(In millions of Canadian dollars)				
Long-term debt	16.2	4.2	11.9	–	0.1
Interest on debt	1.7	0.8	0.9	–	–
Other liabilities	36.8	5.2	13.3	8.2	10.1
Operating lease commitments	211.0	35.8	57.5	43.0	74.7
Total contractual obligations	265.7	46.0	83.6	51.2	84.9

For further information regarding the nature and repayment terms of our long-term debt, refer to the Cash Flows Used In Financing Activities section. Our operating lease commitments include obligations under office space rental agreements, and our other liabilities primarily include leasehold inducement benefits and provision for self-insurance.

Off-Balance Sheet Arrangements

As of December 31, 2006, we had off-balance sheet financial arrangements relating to letters of credit in the amount of $1.9 million that expire at various dates before January 2008. These letters of credit were issued in the normal course of operations, including the guarantee of certain office rental obligations.

In the normal course of business, we also provide indemnifications and, in very limited circumstances, bonds, which are often standard contractual terms, to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing transactions. In addition, we indemnify our directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. These indemnifications may require us to compensate the counterparty for costs incurred as a result of various events. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents us from making a reasonable estimate of the maximum potential amount that could be required to pay counterparties. Historically, we have not made any significant payments under such indemnifications, and no amounts have been accrued in our consolidated financial statements with respect to these guarantees.

Market Risk

We are exposed to various market factors that can affect our performance primarily with respect to currency and interest rates.

Currency. Because a significant portion of our revenue and expenses is generated or incurred in US dollars, we face the challenge of dealing with fluctuations in exchange rates. To the extent that US-dollar revenues are greater than US-dollar expenses in a strengthening US-dollar environment, we expect to see a positive impact on our income from operations. Conversely, to the extent that US-dollar revenues are greater than US-dollar expenses in a weakening US-dollar environment, we expect to see a negative impact. This exchange rate risk primarily reflects, on an annual basis, the impact of fluctuating exchange rates on the net difference between total US-dollar professional revenue and US-dollar expenses. Other exchange rate risk arises from the revenue and expenses generated or incurred by subsidiaries located outside Canada and the United States. Our income from operations will be impacted by exchange rate fluctuations used in translating these revenue and expenses. In addition, the impact of exchange rates on the balance sheet accounts of subsidiaries located outside Canada and the United States will affect our operating results. We also continue to be exposed to exchange rate risk for the US-dollar and other foreign currency-denominated balance sheet items carried by our Canadian, US, and international operations.

Interest Rate. Changes in interest rates also present a risk to our performance. Our credit facility carries a floating rate of interest. We estimate that, based on our balance at December 31, 2006, a 1% change in interest rates would impact our earnings per share by less than $0.01.

Related Party Transactions

We have not entered into any related party transactions as defined in Section 3840 of the Canadian Institute of Chartered Accountants (CICA) Handbook.

OUTLOOK

The following table summarizes our expectations for the coming year:

Measure	Expected Range
Debt to equity ratio *[note 1]*	At or below 0.5 to 1
Return on equity *[note 2]*	At or above 14%
Net income as % of net revenue	At or above 6%
Gross margin as % of net revenue	Between 55 and 57%
Administrative and marketing expenses as % of net revenue	Between 40 and 42%
Effective income tax rate	Between 32 and 34%

note 1: Debt to equity ratio is calculated as the sum of (1) long-term debt, including current portion, plus bank indebtedness, less cash divided by (2) shareholders' equity.
note 2: Return on equity is calculated as net income for the year divided by average shareholders' equity over each of the last four quarters.

These targets are generally an improvement over our 2006 targets and are in the same range as our actual performance for 2006. Fluctuations in actual performance occur due to the particular client and project mix achieved. Some targets, such as debt to equity ratio, could be impacted and potentially exceeded by completing an opportune larger acquisition that increases our debt level above our target for a period of time.

The infrastructure and facilities market in North America, our principal area of operation, is large and is estimated to generate over US$60 billion in revenue for our addressable market. The North American market is also diverse, consisting of many technical disciplines, practice areas, client types, and industries in both the private and public sectors. Overall, we expect the outlook for professional services in our key markets and practice areas to remain positive, with continuing robust private and public sector spending on the development of new and the rehabilitation of existing infrastructure. We base this expectation on a variety of factors as described below.

Canada

The outlook for Canada, particularly western Canada, remains strong for 2007. According to the Conference Board of Canada, the Canadian gross domestic product (GDP) is expected to grow by 2.7% in 2007 and by 3.3% in 2008. We believe that GDP growth is a good indicator for the measurement of spending growth in the infrastructure and facilities industry. The following factors are evidence of a positive Canadian outlook in 2007 in areas that directly impact infrastructure spending:

- High energy prices are spurring investment in the oil and gas construction segment in Canada. Much of this investment is in Alberta's oil sands, where spending is estimated to exceed $64 billion between 2006 and 2010.

- The federal and various provincial governments recently approved additional funding for the health care and education sectors. For example, the Canadian government recently increased health care support by 6% annually up to 2013–14 to be focused on expanding "centers of excellence" as well as existing health facilities. In addition, the Ontario government's Renew Ontario Plan will contribute $10 billion to educational facilities and $5 billion to health care facilities from 2005 to 2010.

- Governments and the public are becoming increasingly aware of environmental issues and sustainable design and development. This awareness includes, for instance, an increased interest in the development of buildings and facilities that require less energy for operation and have a reduced ecological impact, as well as improvements to water, water distribution, and water treatment infrastructure. We believe that we are well positioned to capture opportunities in these areas, since we have taken a leading position in delivering sustainable design services.

- The construction of ethanol and other biomass production facilities is expected to increase throughout Canada as a result of a federal government initiative to achieve a 55% renewable fuels standard in all gasoline and diesel sold in Canada by 2010. The provinces of Saskatchewan, Manitoba, and Ontario have already announced certain ethanol content standards for gasoline sold in the immediate future.

- Expenditures on electricity are expected to increase nationally by 1.6% in 2007 as investments continue to be made in wind projects and the development and maintenance of hydroelectric projects. For instance, the Manitoba government has committed to a mandate of using 50% renewable energy by 2015 and to being 80% fossil free by 2025, a development that is expected to generate $2 billion in investments within the next two years.

- Housing starts are expected to decrease in 2007; however, they are forecasted to remain above the 200,000-unit level for the sixth consecutive year, which is higher than historical levels and contributes to our positive outlook for 2007. Due to our strong market position in the regions we service, we expect our positive performance in the urban land market to continue into 2007.

- Canada's 2006 budget commits $2.4 billion over the next five years to a new Highways and Border Infrastructure Fund. The Government of Canada will also provide $1.3 billion in support of public transit capital investments—$400 million to accelerate investment in public transit infrastructure and a one-time payment of $900 million to provinces and territories through the Public Transit Capital Trust, which will support capital investment in public transit infrastructure, including rapid and intelligent transportation systems.

United States

The outlook for the United States also remains positive for 2007, despite the slowdown in growth due to the declining housing market. Standard & Poor's anticipates that the US economy will grow by 2.3% in 2007. This continued growth is expected due to strong growth in both exports and investment spending. The following factors support our positive outlook for 2007:

- The manufacturing industry is expected to grow in 2007; however, this growth may not match the growth seen in 2006. Although industrial output does appear to be slowing, there are still companies that need to expand their warehousing and manufacturing facilities.

- As in Canada, higher energy prices are fueling a need to improve infrastructure in the oil and gas sector. As well, it is anticipated that the effects of the 2005 Energy Act will continue to drive projects and provide potential opportunities in this sector in 2007.

- The implementation of the six-year, US$286.4 billion SAFETEA-LU, which was passed into law on August 10, 2005, has increased the funds available for transportation projects.

- The housing market is forecasted to continue to decline in the first half of 2007; however, this decline is expected to be moderate, and the market may begin showing positive growth in the latter part of the year. Due to our strong market position in the regions we service and the potential for a moderation of the current decline in housing starts, we expect our urban land performance in 2006 to continue into 2007.

Supported by this overall market outlook for our practice areas, we plan to continue to grow our operations through a combination of internal organic growth and acquisitions. We continue to target to achieve a long-term average annual compound growth rate of 15 to 20% for gross revenue—a target we have realized since our initial public offering in 1994. Continued growth allows us to enhance the depth of our expertise, broaden our service offerings, provide expanded opportunities for our employees, and lever our information technology and other "back office" systems. Our ability to grow at this rate depends on the availability of acquisition opportunities. To date, the availability of acquisition candidates has not been an issue, and we do not expect it to become one since our industry is made up of many small to midsize firms and there is a consolidation trend occurring as smaller firms desire to join larger, more stable organizations. Since it is important to find an appropriate cultural fit and complementary services, the process of courting an acquisition can extend over months or even years. Consequently, at any one time we are engaged in discussions with as many as 30 or more firms.

We expect to support our targeted level of growth using a combination of cash flows from operations and additional financing.

CRITICAL ACCOUNTING ESTIMATES, DEVELOPMENTS, AND MEASURES

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with Canadian GAAP, which require us to make various estimates and assumptions. The notes to our December 31, 2006, consolidated financial statements outline our significant accounting estimates. The accounting estimates discussed below are considered particularly important since they require the most difficult, subjective, and complex management judgments. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome.

Unless otherwise specified in our discussion of specific critical accounting estimates, we expect no material changes in overall financial performance and financial statement line items to arise either from reasonably likely changes in material assumptions underlying an estimate or within a valid range of estimates from which the recorded estimate was selected. In addition, we are not aware of trends, commitments, events, or uncertainties that we reasonably expect to materially affect the methodology or assumptions associated with our critical accounting estimates, subject to items identified in the Caution Regarding Forward-Looking Statements and Risk Factors sections of this discussion and analysis.

Revenue and Cost Recognition Estimates on Contracts. Revenue from fixed-fee and variable-fee-with-ceiling contracts is recognized using the percentage of completion method based on the ratio of contract costs incurred to total estimated contract costs. We believe that costs incurred are the best available

measure of progress toward completion of these contracts. Estimating total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turn out to be higher or lower than our previous estimates, we will have over or underrecognized revenue for the previous period. We also provide for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in our estimates are reflected in the period in which they are made and would affect our revenue and costs and estimated earnings in excess of billings.

Goodwill. Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a reporting unit using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best judgments. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods, which would decrease our goodwill assets and increase our reported expenses.

Provision for Doubtful Accounts. We use estimates in determining our allowance for doubtful accounts related to trade receivables. These estimates are based on our best assessment of the collectibility of the related receivable balance based, in part, on the age of the specific receivable balance. A provision is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from our current estimates would affect the results of our operations in future periods as well as our accounts receivable and general and administrative expenses.

Self-Insured Liabilities. We self-insure certain risks, including professional liability and automobile liability. The accrual for self-insured liabilities includes estimates of the costs of reported claims and is based on estimates of loss using our assumptions, including consideration of actuarial projections. These estimates of loss are derived from loss history that is then subjected to actuarial techniques in the determination of the proposed liability. Estimates of loss may vary from those used in the actuarial projections and may result in a larger loss than estimated. Any increase in loss would be recognized in the period in which the loss is determined and would increase the self-insured liability and reported expenses.

Income Taxes. Our income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. Our effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of future tax assets and liabilities. Our income tax expense reflects an estimate of the cash taxes we expect to pay for the current year, as well as a provision for changes arising in the values of future tax assets and liabilities during the year. The tax value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, our expectations about future operating results, and possible audits of our tax filings by regulatory authorities. We assess the likelihood of recovering value from future tax assets such as loss carryforwards on a regular basis, as well as the future tax depreciation of capital assets, and may establish a valuation provision. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an adjustment in future periods that would increase or decrease our future income tax asset or liability and increase or decrease our income tax expense.

Long-Lived Assets and Intangibles. We regularly review long-lived assets and intangible assets with finite lives when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. The determination of recoverability is based on an estimate of undiscounted future cash flows, and the measurement of an impairment loss is based on the fair value of the asset. To determine recoverability, we compare the estimated undiscounted future cash flows projected to be generated by these assets to their respective carrying value. In performing this analysis, we make estimates or assumptions about factors such as current and future contracts with clients, margins, market conditions, and the useful life of an asset. If our estimates or assumptions change from those used in our current analysis, we may be required to recognize an impairment loss in future periods that would decrease our long-lived and intangible assets and increase our reported expenses.

Liabilities for Lease Exit Activities. We accrue charges when closing offices in existing operations or finalizing plans to downsize offices in locations assumed from an acquiree upon a business acquisition. Included in these liabilities is the present value of the remaining lease payments reduced by estimated sublease rentals that can reasonably be obtained. These provisions are based on our estimates and reflect plans in place at the time the liability is recorded. If actual sublease payments and rental circumstances change from our original estimate, the liability will change, and we will be required to increase or decrease it and adjust goodwill or reported expenses depending on whether the adjustment relates to a liability established pursuant to an acquisition.

Business Combinations—Purchase Price Allocation. In a business combination, we may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, revenue growth rates, expected operating income, discount rates, and earning multiples. If our estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods. We are currently in the process of finalizing the purchase price allocation for the Dufresne-Henry, Inc. and ACEx Technologies, Inc. acquisitions.

Accounting Developments

Canadian

Variable Interest Entities. Effective January 1, 2005, we adopted the recommendations of Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities" (VIEs). VIEs are those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying variable interest entities as well as criteria for determining consolidation. Our consolidated financial statements include the accounts of our Company, its subsidiary companies, and all VIEs. The Company is the primary beneficiary for all VIEs. Our initial adoption of this accounting guideline on a prospective basis did not have an impact on our consolidated financial statements.

Financial Instruments, Equity, and Comprehensive Income. In January 2005, the CICA issued the new handbook Section 3855, "Financial Instruments—Recognition and Measurement"; Section 1530, "Comprehensive Income"; and Section 3251, "Equity," effective for annual and interim periods beginning on or after October 1, 2006. These pronouncements further aligned Canadian GAAP with US GAAP and will require the following:

- Financial assets will be classified as either loans or receivables, held to maturity, held for trading, or available for sale. Held-to-maturity classification will be restricted to fixed maturity instruments that we intend and are able to hold to maturity and will be accounted for at amortized cost. Held-for-trading instruments will be recorded at fair value, with realized and unrealized gains and losses reported in net income. The remaining financial assets will be classified as available for sale. These assets will be recorded at fair value, with unrealized gains and losses reported in a new category of the consolidated balance sheets under shareholders' equity called "Other Comprehensive Income" until the financial asset is disposed, at which time the realized gains or losses will be recognized in net income. Upon the initial adoption of these recommendations in fiscal 2007, our investments held for self-insured liabilities will be reflected as investments available for sale.

- Financial liabilities will be classified as either held for trading or other. Held-for-trading instruments will be recorded at fair value, with realized and unrealized gains and losses reported in net income. Other instruments will be accounted for at amortized cost, with realized gains and losses reported in net income.

- Derivatives will be classified as held for trading unless designated as hedging instruments. All derivatives will be recorded at fair value on the consolidated balance sheets.

Upon our initial adoption of these recommendations in fiscal 2007, accumulated other comprehensive income will be included on our consolidated balance sheets as a separate component of shareholders' equity. Accumulated other comprehensive income will include, on a net of tax basis, net unrealized gains and losses on available-for-sale financial assets and unrealized foreign currency translation gains and losses on self-sustaining foreign operations, which is currently reflected in our cumulative translation account.

The impact of recording our investment held for self-insured liabilities at fair value on January 1, 2007, will be to increase other assets by approximately $493,000 and increase opening accumulated other comprehensive income by approximately $481,000 (after-tax). Accumulated other comprehensive income will also increase by the $24.8 million balance currently reported in our cumulative translation account. Prior periods will not be restated.

Accounting Changes. In July 2006, the CICA issued the new handbook Section 1506, "Accounting Changes," effective for annual and interim periods beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. It includes the disclosure, on an interim and annual basis, of a description and the impact on our financial results of any new primary source of GAAP that has been issued but is not yet effective. This new section is not expected to have a material effect on our financial position or on the results of our operations.

Financial Instruments—Disclosure and Presentation. In November 2006, the CICA issued the new handbook Section 3862, "Financial Instruments—Disclosures," and Section 3863, "Financial Instruments—Presentation," effective for annual and interim periods beginning on or after October 1, 2007. These pronouncements further aligned Canadian GAAP with US GAAP. Early adoption of these recommendations is permitted. Section 3862 requires companies to provide disclosures in their financial statements that enable users to evaluate a) the significance of financial instruments for the company's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date and how the company manages those risks. Section 3863 establishes standards for the presentation of financial instruments. It addresses the classification of financial instruments between liabilities and equity; the classification of related interest, dividends, and losses and gains; and the circumstances in which financial assets and financial liabilities are offset. These new standards are not expected to have a material effect on our financial position or on the results of our operations.

Capital Disclosures. In November 2006, the CICA released the new handbook Section 1535, "Capital," effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the company's financial statements may evaluate its objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the results of our operations.

International Financial Reporting Standards. The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards over a transition period that is expected to end in 2011. The impact of this transition on our consolidated financial statements has not yet been determined.

United States

Stock-Based Compensation. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), effective for the first interim or annual financial statements beginning on or after June 15, 2005. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in financial statements based on their fair values. We recognize share-based payments at fair value for options granted subsequent to January 1, 2002, using the Black-Scholes option-pricing model. We adopted SFAS 123R using the modified-prospective transition method. The adoption of this standard did not have an impact on our consolidated financial statements.

Uncertainty in Income Taxes. In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FAS Statement No. 109" (FIN 48), effective for fiscal years beginning on or after December 15, 2006. FIN 48 creates a single model for addressing the accounting for uncertainty in tax positions. It also clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in financial statements. In addition, this interpretation provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We will adopt FIN 48 as of January 1, 2007, as required. The adoption of this pronouncement is not expected to have a material effect on our financial position or on the results of our operations.

Fair Value Measurements. In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), effective for fiscal years beginning after November 15, 2007. SFAS 157 establishes a framework for measuring fair value under US GAAP and requires additional disclosure. The statement defines a fair value hierarchy, with the highest priority being quoted prices in active markets. Under this statement, fair value measurements are disclosed by level within the hierarchy. This standard does not require any new fair value measurements. We are currently considering the impact of the adoption of this interpretation on our consolidated financial statements.

Materiality

We determine whether or not information is "material" based on whether we believe that a reasonable investor's decision to buy, sell, or hold securities in our Company would likely be influenced or changed if the information were omitted or misstated.

Definition of Non-GAAP Measures

This Management's Discussion and Analysis includes references to and uses terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by Canadian GAAP. These non-GAAP measures may not be comparable to similar measures presented by other companies. We believe that these are useful measures for providing investors with additional information to assist them in understanding components of our financial results.

Gross Revenue and Net Revenue. Our Company provides knowledge-based solutions for infrastructure and facilities projects through value-added professional services principally under fee-for-service agreements with clients. In the course of providing services, we incur certain direct costs for subconsultants, equipment, and other expenditures that are recoverable directly from our clients. The revenue associated with these direct costs is included in our gross revenue. Since such direct costs and their associated revenue can vary significantly from contract to contract, changes in our gross revenue may not be indicative of our revenue trends. Accordingly, we also report net revenue, which is gross revenue less subconsultant and other direct expenses, and analyze our results in relation to net revenue rather than gross revenue.

Gross Margin. We monitor our gross margin percentage levels to ensure that they are within an established acceptable range for the profitability of our operations and Company. Gross margin is calculated as the difference of net revenue minus direct payroll costs. Direct payroll costs include the cost of salaries and related fringe benefits for labor hours that are directly associated with the completion of projects. Labor costs and related fringe benefits for labor hours that are not directly associated with the completion of projects are included in administrative and marketing expenses.

Debt to Equity Ratio. As part of our overall assessment of our financial condition, we monitor our debt to equity ratio to ensure that it is maintained within our established range. Debt to equity ratio is calculated as long-term debt plus the current portion of long-term debt plus bank indebtedness less cash, all divided by shareholders' equity.

Return on Equity Ratio. As part of our overall assessment of value added for shareholders, we monitor our return on equity ratio. Return on equity is calculated as net income for the year divided by the average shareholders' equity over each of the last four quarters.

Working Capital. We use working capital as a measure for assessing the overall liquidity of our Company. Working capital is calculated by subtracting current liabilities from current assets.

Current Ratio. We also use current ratio as a measure for assessing the overall liquidity of our Company. Current ratio is calculated by dividing current assets by current liabilities.

EBITDA. EBITDA represents earnings before interest expense, income taxes, depreciation, and amortization. This measure is referenced in our credit facility as part of our debt covenants. It is defined in the credit facility for any period as net income for such period plus all amounts deducted in the calculation thereof on account of interest expense, income taxes, depreciation, amortization, or any minority interest.

EBITDAR. This measure is referenced in our credit facility as part of our debt covenants. It is defined in the credit facility as an amount equal to EBITDA plus building rental obligations net of common area costs, taxes, charges, and levies.

EBITDAR to Debt Service Ratio. This ratio is referenced in our credit facility agreement as part of our debt covenants. It is defined in the credit facility as EBITDAR divided by permanent principal and interest payments in respect of the debt plus building rental obligations net of common area costs, taxes, charges, and levies.

RISK FACTORS

The following factors, among others, could cause our actual results to differ materially from those projected in our forward-looking statements:

- Global capital market activities
- Fluctuations in interest rates or currency values
- The effects of war or terrorist activities
- The effects of disease or illness on local, national, or international economies
- The effects of disruptions to public infrastructure such as transportation or communications
- Disruptions in power or water supply
- Industry or worldwide economic or political conditions
- Regulatory or statutory developments
- The effects of competition in the geographic or business areas in which we operate
- The actions of management
- Technological changes

Investors and the public should carefully consider these factors, other uncertainties, and potential events as well as the inherent uncertainty of forward-looking statements when relying on these statements to make decisions with respect to Stantec. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by the organization or on its behalf. Additional operating, market, and growth and acquisition integration risks are outlined below.

Operating Risks

Like all professional services firms in the infrastructure and facilities industry, we are exposed to a number of risks in carrying out the day-to-day activities of our operations. These risks include the following.

If we are unable to engage qualified subconsultants, we may lose projects, revenue, and clients.

We often contract with outside companies to perform designated portions of the services we provide to our clients. In 2006 subconsultant costs accounted for approximately 8.6% (2005 – 9.6%) of our gross revenue. If we are unable to engage qualified subconsultants, our ability to perform under some of our contracts may be impeded and the quality of our service may decline. As a consequence, we may lose projects, revenue, and clients.

We may have difficulty in attracting and retaining qualified staff, which may affect our reputation in the marketplace and restrict our ability to implement our business strategy.

We derive our revenue almost exclusively from services performed by our employees. Consequently, one of the key drivers of our business is our ability to attract and retain qualified staff. However, we may not be able to attract and retain the desired number of qualified staff over the short or long term. There is significant competition for staff with the skills necessary for providing our services from major and boutique consulting, engineering, public agency, research, and other professional services firms. Our inability to attract and retain qualified staff could impede our ability to secure and complete engagements, in which event we may lose market share and our revenue and profits could decline. In addition, if our employees were to leave our Company and become competitors of ours, we could lose other employees and some of our existing clients who have formed relationships with such former employees. We could also lose future clients to a former employee as a new competitor. In either event, we could lose clients and revenue, and our profitability could decline.

Adverse weather conditions and natural or other disasters may cause a delay or eliminate net revenue which otherwise would have been realized and thus adversely affect our profitability.

Our field activities are generally performed outdoors and may include professional surveying, resident engineering services, field data surveys and collection, archeology, plant start-up and testing, and plant operations. Certain weather conditions and natural or other disasters, such as fires, floods, influenza pandemics, and similar events, may cause postponements in the initiation and/or completion of our field activities and may hinder the ability of our office employees to arrive at work, which may result in a delay or elimination of revenue that otherwise would have been recognized while certain costs continued to be incurred. Adverse weather conditions or disasters may also delay or eliminate our initiation and/or completion of the various phases of work relating to other engineering services that commence concurrent with or subsequent to our field activities. Any delay in the completion of our field, office, and/or other activities may require us to incur additional costs attributable to overtime work necessary to meet our client's required schedule. Due to various factors, a delay in the commencement or completion of a project may also result in the cancellation of the contract. As a result, our net revenue and profitability may be adversely affected.

Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future earnings.

As of December 31, 2006, our backlog was approximately $685 million. However, the revenue projected in our backlog may not be realized or, if realized, may not result in profits. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in our backlog. Backlog reductions can adversely affect the revenue and profit we actually receive from contracts reflected in our backlog. Future project cancellations and scope adjustments could further reduce the dollar amount of our backlog and the revenue and profits that we actually receive. Finally, poor project or contract performance could also impact our profits.

We bear the risk of cost overruns in a significant number of our contracts. We may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.

We conduct our business under various types of contractual arrangements, most of which are fee-for-service agreements. However, approximately 75% of the dollar value of our contracts in 2006 was based on a fixed-fee or time-and-materials contract with a ceiling on the maximum costs to the client. Under fixed-fee contracts, we perform services at a stipulated price. Under time-and-materials contracts with not-to-exceed provisions, we are reimbursed for the number of labor hours expended at an established hourly rate plus the cost of materials incurred subject, however, to a stated maximum dollar amount for the services to be provided. In both of these types of contracts, we agree to provide our services based on our estimate of the costs a particular project will involve. These estimates are established in part on cost and scheduling projections, which may prove to be inaccurate, or circumstances may arise such as unanticipated technical problems, weaknesses in project management, difficulties in obtaining permits or approvals, changes in local laws, or delays beyond our ability to control. The underestimation of costs for these types of contracts may cause us to incur losses or result in a project not being as profitable as we expect. In addition, projects that are not completed on schedule further reduce profitability because staff must continue to work on the project longer than anticipated, which may prevent them from pursuing and working on new projects. Projects that are over budget or not on schedule may also lead to client dissatisfaction.

One of our primary competitive advantages is our reputation and experience. If our reputation is damaged due to client dissatisfaction, our ability to win additional business may be materially damaged.

Although we serve many diverse clients and are not dependent on any one client or group of clients to sustain our business, our reputation for delivering effective and efficient solutions for complex projects is one of our most valuable business development assets. The loss of this reputation due to client dissatisfaction represents a significant risk to our ability to win additional business both from existing clients and from those with whom we may have dealings in the future.

The nature of our business exposes us to potential liability claims and contract disputes, which may reduce our profits.

Our operations are subject to the risk of third-party claims in the normal course of our business, some of which may be substantial. We have been and may in the future be named as a defendant in legal proceedings where parties may make a claim for damages or other remedies with respect to our projects or other matters. Any litigation resulting from our business operations could distract management's attention from normal business operations, divert financial resources to the defense of such claims, or result in significant attorney fees and damage awards for which we may not be fully insured and which could harm our reputation. Any of these circumstances could adversely affect our profitability.

Our insurance may not cover all claims for which we may be liable, and expenses related to insurance coverage may adversely impact our profitability.

Although we believe that we have made adequate arrangements for insuring against potential liability claims, these arrangements may be insufficient to cover any particular risk. When it is determined that we have liability, we may not be covered by insurance, or, if covered, the dollar amount of these liabilities may exceed our policy limits. Our professional liability coverage is on a "claims-made" basis, covering only claims actually made during the policy period currently in effect. In addition, even where insurance is maintained for such exposures, the policies have deductibles resulting in our assuming exposure for a layer of coverage with respect to any such claims. Any liability not covered by our insurance, in excess of our insurance limits, or covered by insurance but subject to a high deductible could result in a significant loss for us, which may reduce our profits and cash available for operations. Moreover, we may become subject to liability that cannot be insured against or against which we may choose not to insure because of high premium costs or for other reasons. Our expansion into new services or geographic areas could result in our failure to obtain coverage for these services or areas, or the coverage being offered may be at a higher cost than our current coverage. Due to the current insurance environment, we have experienced and may continue to experience an increase in our insurance premiums. We may not be able to pass these increases on to our clients in increased billing rates.

We maintain insurance coverage for our operations, including policies covering general liability, automobile liability, environmental liability, workers' compensation and employers' liability, directors' and officers' liability, and professional liability. In September 2003, we established a regulated captive insurance company to insure and fund the payment of any professional liability self-insured retentions related to claims arising after August 1, 2003. We, or our clients, also obtain project-specific insurance for designated projects from time to time. We also invest resources in a Risk Management team that is dedicated to providing Company-wide support and guidance on risk avoidance practices and procedures. One of our practices is to carry out select client evaluations, including credit risk appraisals, before entering into contract agreements to reduce the risk of non-payment for our services.

We may not be able to adequately protect our intellectual property, which could force us to take costly protective measures such as litigation.

To establish and protect our intellectual property rights, we rely on a combination of trademark and trade secret laws, along with licenses, exclusivity agreements, and other contractual covenants. However, the measures we take to protect our intellectual property rights may prove inadequate to prevent the misappropriation of our intellectual property. Litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and the diversion of resources, may result in counterclaims or other claims against us, and could significantly harm the results of our operations.

Inadequate internal controls or disclosure controls may result in events that could adversely affect our business.

Inadequate internal controls or disclosure controls over financial reporting could result in material misstatement in our financial statements and related public disclosures. Such inadequate controls could also result in system downtime, backlogs, fraud, or the inability to continue our business operations. We have a dedicated in-house Compliance team that is responsible for ongoing control documentation and the evaluation of internal controls.

If fraud occurs and remains undetected, we may have a loss of assets or misstatement in our financial statements.

Fraud may occur and remain undetected resulting in a loss of assets and/or misstatement in our financial statements and related public disclosures. We have implemented various business conduct policies addressing potential fraud risks, including our Code of Ethics, Conflict of Interest, and Whistleblower policies. Our Compliance team reviews fraud as part of its control evaluation program.

If we experience delays and/or defaults in customer payments, we could suffer liquidity problems or be unable to recover our expenditures.

Because of the nature of our contracts, at times we commit resources to projects prior to receiving payments from the customer in amounts sufficient to cover expenditures as they are incurred. Delays in customer payments may require us to make a working capital investment. If a customer defaults in making payments on a project to which we have devoted significant resources, it could have a material negative effect on our liquidity as well as the results of our operations. In addition, clients who withhold payment are more likely to bring claims against us and have a higher tendency toward dissatisfaction with the services we provide.

Market Risks

We are also exposed to various market factors that can affect our performance. These risks include the following.

The professional consulting services industry is highly competitive, which could have a negative impact on our profit margins and market share.

The markets we serve are highly competitive, and we have numerous competitors for the services we offer. The principal competitive factors include reputation, experience, breadth and quality of services, technical proficiency, local offices, competitive total project fees, and service delivery. The number and identity of competitors vary widely with the type of service we provide. For small- to medium-sized projects, we compete with many engineering, architecture, and other professional consulting firms. For larger projects, there are fewer but still many competitors, and many of these competitors have greater financial and other resources than we do. Although we compete with other large private and public companies in certain geographic locations, our primary competitors are smaller, privately held regional firms in the United States and Canada. Generally, competition places downward pressure on our contract prices and profit margins. However, such impact is difficult to quantify. Intense competition is expected to continue in these markets, presenting significant challenges to our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits. We may not be able to compete successfully with such competitors, and such competition could cause us to lose customers, increase expenditures, or reduce pricing, any of which could have a material adverse effect on our earnings and stock price.

Economic downturns could have a negative impact on our business since our clients may curtail investment in infrastructure projects.

Demand for the services we offer has been, and is expected to continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions. During economic downturns, the ability of both private and governmental entities to make expenditures may decline significantly, which would have a material adverse effect on our revenue and profitability. We

cannot be certain that economic or political conditions will generally be favorable or that there will not be significant fluctuations that adversely affect our industry as a whole or the key markets we target.

A significant portion of our revenue is derived from clients in the real estate industry. Consequently, our business could suffer materially if there were a downturn in the real estate market.

In 2006, 34.5% (2005 – 33.8%) of our gross revenue was derived from services related to residential and commercial real estate development projects. Consequently, reduced demand in the real estate market would likely have an adverse impact on our Urban Land group. The real estate market, and, therefore, our business, may be impacted by a number of factors, which may include the following:

- Changes in employment levels and other general economic conditions
- Changes in interest rates and in the availability, cost, and terms of financing
- The impact of present or future environmental, zoning, or other laws and regulations
- Changes in real estate tax rates and assessments and other operating expenses
- Changes in levels of government infrastructure spending and fiscal policies
- Natural or human-made disasters and other factors that are beyond our control

A significant decrease in the demand for our real estate-related services could have a material adverse effect on our overall business, including the results of our operations and liquidity.

We derive significant revenue from contracts with government agencies. Any disruption in government funding or in our relationship with those agencies could adversely affect our business.

The demand for our services is related to the level of government funding that is allocated for rebuilding, improving, and expanding infrastructure systems. We derive a significant amount of our revenue from government or government-funded projects and expect to continue to do so in the future. Between 30 and 55% of our gross revenue during the years ended December 31, 2003, through December 31, 2006, was derived from government or government-funded projects. Significant changes in the level of government funding could have an unfavorable impact on our business, financial position, results of operations, and cash flows.

We believe that the success and further development of our business depend, in part, on the continued funding of these government programs and on our ability to participate in these programs. However, governments may not have available resources to fund these programs or may not fund these programs even if they have available financial resources. Some of these government contracts are subject to renewal or extensions annually, so we cannot be assured of our continued work under these contracts in the future. In addition, government agencies can terminate these- contracts at their convenience. As a result, we may incur costs in connection with the termination of these contracts and suffer a loss of business. As well, contracts with government agencies are sometimes subject to substantial regulation and audit of the actual costs incurred. Consequently, there may be a downward adjustment to our revenue if accrued recoverable costs exceed actual recoverable costs.

Our share price has historically been subject to volatility. As a result, the price of our common shares may decrease in the future due to a number of Company- and industry-specific or general economic factors.

Our share price has experienced volatility in the past and will likely be volatile in the future. For example, the high and low closing sales prices for our common shares on the TSX and New York Stock Exchange (NYSE) during the 52 weeks ended December 31, 2006, were \$25.84 and \$18.50, respectively, and US\$22.55 and US\$16.33, respectively.

The price of our common shares may fluctuate substantially in the future due to, among other things, the following factors: (1) the failure of our quarterly or annual operating results to meet expectations; (2) the reaction of markets and securities analysts to announcements and developments involving our Company; (3) adverse developments in the worldwide, Canadian, or US economy, the financial markets, or the engineering and consulting services market; (4) changes in interest rates; (5) announcements by key competitors; (6) additions or departures of key staff; (7) announcements of legal proceedings or regulatory matters; or (8) general volatility in the stock market.

In addition, the stock market has experienced volatility that has affected the market prices of the equity securities of many companies and that has often been unrelated to the operating performance of such companies. A number of other factors, many of which are beyond our control, could also cause the market price of our common shares to fluctuate substantially.

Our share price could be adversely affected if a large number of our common shares are offered for sale or sold.

There may be instances in which we negotiate an acquisition where the consideration for the purchase may include Stantec shares. In the event that the acquired entity's shareholders subsequently decide to dispose of Stantec shares following the acquisition, there could be a large supply of our common shares on the market. If the supply of our common shares is significantly greater than the associated demand, the market price of our common shares may significantly decline and may not recover.

If we need to sell or issue additional common shares and/or incur additional debt to finance future acquisitions, our share ownership could be diluted and the results of our operations could be adversely affected.

Our business strategy is to expand into new markets and enhance our position in existing markets through the acquisition of complementary businesses. In order to successfully complete targeted acquisitions or to fund our other activities, we may issue additional equity securities that could dilute share ownership. We may also incur additional debt if we acquire another company, and this could increase our debt repayment obligations, which could have a negative impact on our future liquidity and profitability.

As mentioned previously, we currently have a \$160 million credit facility. However, we have no assurance that debt financing will continue to be available from our current lenders or other financial institutions on similar terms.

Because we report our results in Canadian dollars and a substantial portion of our revenue and expenses is recorded in US dollars, our results are subject to currency exchange risk.

Although we report our financial results in Canadian dollars, a substantial portion of our revenue and expenses is generated or incurred in US dollars. For the purposes of financial reporting under Canadian GAAP measures, revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates prevailing during the year. We expect to continue to report our financial results in Canadian dollars in accordance with Canadian GAAP measures. Therefore, if the Canadian dollar were to strengthen relative to the US dollar and other currencies, the amount of net income from our non-Canadian-dollar-denominated business could decrease, which could have a material adverse effect on our business, financial condition, and results of operations.

The value of the Canadian dollar relative to the US dollar is subject to volatility. For example, the average exchange rates for the years ended December 31, 2006; December 31, 2005; December 31, 2004; and December 31, 2003, for C$1.00 were US$0.88, US$0.83, US$0.76, and US$0.71, respectively. Furthermore, this volatility may continue in the future, and, as discussed above, increases in the strength of the Canadian dollar relative to the US dollar may have a negative impact on the results of our operations.

From time to time we enter into forward contracts to manage risk associated with net operating assets outside our US operations denominated in US dollars (other than with respect to net operating assets that are owned by US subsidiaries). These derivative contracts, which are not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when they occur. As a result, we may not benefit from any weakening of the Canadian dollar relative to the US dollar.

Growth and Acquisition Integration Risks

We are also exposed to factors arising from growth and acquisition activities that can affect our performance. These risks include the following.

If we are unable to manage our growth effectively, we may experience a decline in our revenue and profitability.

We have grown rapidly in the recent past, and we intend to pursue further growth through acquisitions and otherwise as part of our business strategy. However, there is a risk that we may not be able to manage our growth effectively and efficiently. Our inability to manage our growth could cause us to incur unforeseen costs, time delays, or other negative impacts, any of which could cause a decline in our revenue and profitability. Our rapid growth has presented, and will continue to present, numerous administrative and operational challenges, including the management of an expanding array of engineering and consulting services, the assimilation of financial reporting systems, increased pressure on our senior management, and increased demand on our systems and internal controls. Furthermore, as we expand our service offerings and geographic presence, we may not be able to maintain the current quality of our services.

We may also encounter difficulties in integrating acquisitions that we do make. Acquired businesses may not be profitable, because we may not be successful in generating the same level of operating performance that an acquired company experienced prior to its acquisition. As well, we may not be able to maintain our reputation in an acquired company's geographic area or service offerings, which may negatively impact our ability to attract and retain clients in those or other areas. Any of these integration issues could divert management's attention from other business activities and impact our ability to grow our business effectively.

From time to time we have pursued and may continue to pursue and invest in business opportunities that are not directly within our core competencies. These new business opportunities may require a disproportionate amount of management's time to develop profitably and may not perform as expected.

Acquisitions may bring us into businesses that we have not previously conducted and expose us to additional business risks that are different from those we have traditionally experienced. Consequently, we may depend in part on the knowledge and expertise of the professional service providers and management teams that we acquire in order to make these business opportunities profitable. New business opportunities frequently bring a learning curve that may require substantial management time, which may create a distraction from our day-to-day business operations. If these business opportunities do not perform as anticipated or are not profitable, our earnings during periods of greater learning may be materially adversely affected, and we may experience a partial or complete loss of our investment.

We may be unsuccessful in our goal to increase the size and profitability of our operations, which could lead to a reduction in our market share and competitiveness as our industry consolidates.

We may not be able to locate suitable acquisitions or to consummate any such transactions on terms and conditions that are acceptable to us. As the professional services industry consolidates, suitable acquisition candidates are expected to become more difficult to locate and may only be available at prices or under terms that are less favorable than in the past. In addition, some of our competitors are much larger than us, have greater financial resources, and can better afford to pay a premium for potential acquisition candidates. If we are unable to effectively compete for or locate suitable acquisitions, our business will not grow in the manner we expect, and we will have difficulty achieving our growth plan.

To help reduce our susceptibility to industry-specific and regional economic cycles and to take advantage of economies of scale in the highly fragmented professional services industry, we intend to continue to diversify our business both in terms of geographic presence and service offerings. Since the beginning of 2002, we have completed 24 acquisitions, and we expect to continue to pursue selective acquisitions of businesses that will enable us to enhance our market penetration and increase and diversify our revenue base.

Stantec and an acquired entity may experience difficulties in integrating the acquired entity's business into the existing operations of Stantec and so may not realize the anticipated benefits of the acquisition.

Our rationale for acquiring a firm is, in part, predicated on our ability to leverage the combined strengths of the two companies to increase our opportunities and grow our revenue. Integrating an acquired firm's operations and staff into our own is a complex endeavor, and we may not be able to complete the process rapidly or without encountering difficulties. Successful integration requires, among other things, the assimilation of the firm's professional services, sales and marketing operations, and information and software systems as well as the coordination of employee retention and hiring and training operations. The diversion of management's attention to the integration effort and any difficulties encountered in combining operations could adversely affect the combined company's business and prevent it from realizing the anticipated improvement in professional service offerings, market penetration, and geographic presence that forms the foundation for the acquisition.

Uncertainties associated with an acquisition or merger or with Stantec as a new owner may cause an acquired entity to lose customers.

An acquired company's customers may, in response to the announcement of the acquisition, delay or defer decisions concerning their use of the company's services because of uncertainties related to the

consummation of the acquisition, including the possibility that the acquisition may not be completed if all the conditions of the transaction are not fulfilled. This circumstance could have an adverse effect on our revenue and profitability.

Uncertainties associated with an acquisition may cause a loss of employees.

The ability to attract and retain trained professionals is one of the key drivers of our business and results. Therefore, the success of an acquisition depends in part on our ability to retain key employees of the acquired firm. Competition for qualified staff can be very intense. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of the completion of the acquisition, the integration, or a desire not to remain with the combined company. Accordingly, we may be unable to retain key employees to the same extent that we were able to do so in the past.

Goodwill and other intangible assets acquired as a result of our acquisitions represent substantial portions of our total assets. If our acquired businesses do not perform as expected, we may be required to write down the value of our goodwill and other intangible assets, which could have a material adverse effect on our earnings.

Goodwill and other intangible assets represent approximately 40.0% of our total assets. When we acquire a consulting business, a significant portion of the purchase price for the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price allocated to goodwill is determined by the excess of the purchase price paid by us to acquire the consulting business over the fair value of the net identifiable assets acquired. Canadian and US accounting rules require us to perform an annual impairment test of our goodwill and indefinite life intangible assets. A deterioration in the operating results of such acquired businesses or the failure of these businesses to meet our expectations may adversely affect the carrying value of our goodwill and other indefinite life intangible assets and could result in an impairment of the goodwill associated with such businesses. As part of our annual review of goodwill for impairment, we consider the actual performance of each of our reporting units compared to our expectations and update our future expectations for such reporting units. An impairment of goodwill would be recorded as a charge in our income statement, which could have a material effect on our earnings.

Managing Our Risks

We mitigate our operating, market, and growth and acquisition integration risks through our business strategy and other measures. As mentioned previously, our three-dimensional business model based on geographic, practice area, and life cycle diversification reduces our dependency on any particular industry or economic sector for our income. We also differentiate our Company from competitors by entering into a diverse range of contracts with a variety of fee amounts. Focusing on this project mix continues to ensure that we do not rely on a few large, single projects for our revenue and that no single client or project accounts for more than 5% of our overall business.

To address the risk of competition for qualified personnel, we offer a number of employment incentives, including training programs, access to a plan that provides the benefit of employee share ownership (for Canadian employees), and opportunities for professional development and enhancement, along with compensation plans that we believe to be competitive, flexible, and designed to reward top performance. In 2006 we completed a number of employee-focused activities, including the expansion of our Learning Resource Center with updated content and new in-house programs and training. Launched in 2005, the center is the on-line source for all our learning resources, providing access to programs and material on topics such as employee orientation, people skills and leadership, project management, risk mitigation,

business development, and financial management, among others. As well, in 2005 we implemented project manager and leadership portal dashboard training programs designed to enhance the visibility of financially related information to assist our operations leadership in improving performance and decision making. We recognize that through improved project management across our operations we will increase our ability to deliver projects on schedule and within budget.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information we are required to disclose in reports filed with securities regulatory agencies is recorded, processed, summarized, and reported on a timely basis and is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including our CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2006 (as defined in rules adopted by the SEC in the United States and as defined in Canada by Multilateral Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings). Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with generally accepted accounting principals. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of our financial reporting and of the preparation of our financial statements. Accordingly, management, including our CEO and CFO, does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. Management's Annual Report on Internal Control over Financial Reporting and the Independent Auditors' Report on Internal Controls are included in our 2006 consolidated financial statements.

There has been no change in our internal control over financial reporting during the year ended December 31, 2006, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We will continue to periodically review our disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.

CORPORATE GOVERNANCE

Disclosure Committee

In 2005 our Company established a Disclosure Committee consisting of a cross section of management. The committee's mandate is to provide ongoing review of Stantec's continuous disclosure policy and to facilitate compliance with applicable legislative and regulatory reporting requirements.

Board of Directors

Stantec's Board of Directors presently includes eight members, six of whom are independent under Canadian securities laws and under the rules of the U.S. Securities and Exchange Commission (SEC) at the NYSE and free from any interest or relationship that could materially interfere with their ability to act in the best interest of our Company or our shareholders.

The board's mandate is to supervise Stantec's management with a view to the Company's best interests. The board fulfils its mandate by

- Overseeing the Company's strategic planning process
- Satisfying itself as to the integrity of the CEO and other Executive Officers
- Ensuring that the Company has a policy in place for communicating effectively with shareholders, other stakeholders, and the public
- Reviewing and monitoring the Company's principal business risks as identified by management, along with the systems for managing such risks
- Overseeing senior management succession planning, including the appointment, development, and monitoring of senior management
- Ensuring that management maintains the integrity of the Company's internal controls and management information systems

In 2006 Stantec's board included two committees—the Audit Committee and the Corporate Governance and Compensation Committee. Both committees are composed entirely of unrelated, independent directors.

Audit Committee

The Audit Committee monitors, evaluates, approves, and makes recommendations on matters affecting Stantec's external audit, financial reporting, and accounting control policies. The committee met five times in 2006. The chairman of the committee provides regular reports at the Company's board meetings.

The board has determined that each of the Audit Committee's members is financially literate and that the chairman of the Audit Committee, William D. Grace, is a "financial expert" as such term is defined under the rules of the SEC and NYSE.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee monitors, evaluates, approves, and makes recommendations on matters affecting governance and compensation. Governance matters include, but are not limited to, board size, nominations, orientation, education, and self-evaluation. Compensation matters include, but are not limited to, executive management compensation, performance review, and succession plans. The Corporate Governance and Compensation Committee met three times in 2006. The chairman of the committee provides regular reports at the Company's board meetings.

More information about Stantec's corporate governance can be found on our web site (www.stantec.com) and in the Management Information Circular for our May 3, 2007, Annual and Special Meeting of Shareholders. In addition, the following documents are posted on our web site:

- Code of Ethics
- Corporate Governance Guidelines
- Audit Committee Terms of Reference
- Corporate Governance and Compensation Committee Terms of Reference

The above information is not incorporated by reference herein. Copies of these documents will be made available in print form to any shareholder who requests them.

Management Report

The annual report, including the consolidated financial statements and Management's Discussion and Analysis (MD&A), is the responsibility of the management of the Company. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments relating to matters not concluded by year-end. The integrity of the information presented in the financial statements is the responsibility of management. Financial information presented elsewhere in this annual report has been prepared by management and is consistent with the information in the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the annual consolidated financial statements. The Board has appointed an Audit Committee comprising three Directors, none of whom is an officer or employee of the Company or its subsidiaries. The Audit Committee meets at least four times each year to discharge its responsibilities under a written mandate from the Board of Directors. The Audit Committee meets with management and with the external auditors to satisfy itself that they are properly discharging their responsibilities; reviews the consolidated financial statements, MD&A, and Independent Auditors' Report on Financial Statements; and examines other auditing and accounting matters. The Audit Committee has reviewed the audited consolidated financial statements with management, including a discussion of the quality of the accounting principles as applied and significant judgments affecting the Company's consolidated financial statements. The Audit Committee has discussed with the external auditors the external auditors' judgments of the quality of those principles as applied and judgments noted above. The consolidated financial statements and MD&A have been reviewed by the Audit Committee and approved by the Board of Directors of Stantec Inc.

The consolidated financial statements have been examined by the shareholders' auditors, Ernst & Young LLP, Chartered Accountants. The Independent Auditors' Report on Financial Statements outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The external auditors have full and unrestricted access to the Audit Committee, with or without management being present.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2006.

Ernst & Young LLP, which has audited the consolidated statements of the Company for the year ended December 31, 2006, has also issued a report on management's assessment of the Company's internal control over financial reporting.

Tony Franceschini P.Eng.
President & CEO
February 21, 2007

Don Wilson CA
Vice President & CFO
February 21, 2007

Independent Auditors' Report on Financial Statements

To the Shareholders of Stantec Inc.

We have audited the consolidated balance sheets of Stantec Inc. as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2007, expressed an unqualified opinion thereon.

Ernst & Young LLP

Chartered Accountants
Edmonton, Canada
February 21, 2007

Independent Auditors' Report on Internal Controls

(under the standards of the Public Company Accounting Oversight Board (United States))

To the Shareholders of Stantec Inc.

We have audited management's assessment, included in Management's Annual Report on Internal Control over Financial Reporting, that Stantec Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stantec Inc's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Stantec Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Stantec Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stantec Inc. as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006 and our report dated February 21, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Chartered Accountants
Edmonton, Canada
February 21, 2007

Stantec Inc.
Consolidated Balance Sheets

	As at December 31 2006 $	As at December 31 2005 $
	(In thousands of Canadian dollars)	
ASSETS *[note 8]*		
Current		
Cash and cash equivalents	**28,363**	28,143
Restricted cash *[note 2]*	**1,545**	21,312
Accounts receivable, net of allowance for doubtful accounts of $7,379 in 2006 ($16,053 – 2005)	**168,474**	137,928
Costs and estimated earnings in excess of billings	**39,924**	66,172
Prepaid expenses	**6,591**	5,420
Future income tax assets *[note 14]*	**9,711**	14,827
Other assets *[note 6]*	**8,228**	6,569
Total current assets	**262,836**	280,371
Property and equipment *[note 3]*	**65,009**	58,519
Goodwill *[note 4]*	**251,491**	242,674
Intangible assets *[note 5]*	**22,819**	27,304
Future income tax assets *[note 14]*	**9,984**	6,814
Other assets *[note 6]*	**18,338**	13,097
Total assets	**630,477**	628,779
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 7]*	**107,132**	106,757
Billings in excess of costs and estimated earnings	**28,721**	24,251
Income taxes payable	**3,432**	4,441
Current portion of long-term debt *[note 8]*	**4,181**	4,813
Future income tax liabilities *[note 14]*	**12,236**	17,552
Total current liabilities	**155,702**	157,814
Long-term debt *[note 8]*	**12,046**	81,886
Other liabilities *[note 9]*	**33,561**	24,764
Future income tax liabilities *[note 14]*	**18,273**	16,262
Total liabilities	**219,582**	280,726
Commitments, contingencies, and guarantees *[notes 2, 8, 10, and 11]*		
Shareholders' equity		
Share capital *[note 12]*	**212,781**	210,604
Contributed surplus *[note 12]*	**5,458**	5,522
Cumulative translation account *[note 13]*	**(24,844)**	(25,575)
Deferred stock compensation	**(250)**	(833)
Retained earnings	**217,750**	158,335
Total shareholders' equity	**410,895**	348,053
Total liabilities and shareholders' equity	**630,477**	628,779

See accompanying notes

On behalf of the Board:

Director

Director

Stantec Inc.
Consolidated Statements of Income and Retained Earnings

	Years Ended December 31		
	2006	2005	2004
	$	$	$
	(In thousands of Canadian dollars, except per share amounts)		
Income			
Gross revenue	**816,133**	618,020	520,879
Less subconsultant and other direct expenses	**108,206**	93,468	71,728
Net revenue	**707,927**	524,552	449,151
Direct payroll costs	**304,677**	234,553	205,513
Gross margin	**403,250**	289,999	243,638
Administrative and marketing expenses *[notes 12 and 20]*	**292,064**	212,992	183,894
Depreciation of property and equipment	**15,604**	12,389	11,986
Amortization of intangible assets	**6,132**	2,542	927
Net interest expense *[note 8]*	**1,892**	571	2,805
Share of income from associated companies	**(285)**	(187)	(385)
Foreign exchange gains	**(74)**	(449)	(94)
Other income	**(1,507)**	(359)	(155)
Income before income taxes	**89,424**	62,500	44,660
Income taxes *[note 14]*			
Current	**31,484**	21,735	18,065
Future	**(2,242)**	143	(3,595)
Total income taxes	**29,242**	21,878	14,470
Net income for the year	**60,182**	40,622	30,190
Retained earnings, beginning of the year	**158,335**	117,874	88,266
Shares repurchased *[note 12]*	**(767)**	(161)	(582)
Retained earnings, end of the year	**217,750**	158,335	117,874
Earnings per share *[notes 12 and 15]*			
Basic	**1.34**	1.02	0.82
Diluted	**1.31**	0.99	0.79

See accompanying notes

Stantec Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31		
	2006	2005	2004
	$	$	$
	(In thousands of Canadian dollars)		
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Cash receipts from clients	**816,846**	637,391	568,897
Cash paid to suppliers	**(221,056)**	(200,445)	(169,573)
Cash paid to employees	**(467,766)**	(355,621)	(313,321)
Dividends from equity investments	**450**	550	300
Interest received	**6,292**	6,531	6,426
Interest paid	**(7,665)**	(6,551)	(8,639)
Income taxes paid	**(37,588)**	(28,882)	(10,530)
Income taxes recovered	**3,876**	4,341	3,791
Cash flows from operating activities *[note 16]*	**93,389**	57,314	77,351
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Business acquisitions, net of cash acquired *[note 2]*	**(12,181)**	(100,383)	(18,845)
Restricted cash used for acquisitions *[note 2]*	**19,793**	9,000	–
Increase in investments held for self-insured liabilities	**(4,355)**	(7,295)	(9,562)
Proceeds on disposition of investments	**9**	522	55
Collection of notes receivable from disposition of Technology and Design Build segments	**–**	406	1,014
Purchase of property and equipment	**(18,920)**	(17,005)	(17,488)
Proceeds on disposition of property and equipment	**104**	155	34,672
Cash flows used in investing activities	**(15,550)**	(114,600)	(10,154)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of long-term debt	**(85,612)**	(46,875)	(35,546)
Proceeds from long-term borrowings	**9,142**	95,929	13,960
Repayment of acquired bank indebtedness *[note 2]*	**(1,787)**	–	–
Net change in bank indebtedness financing	**–**	–	(17,151)
Repurchase of shares for cancellation *[note 12]*	**(1,016)**	(195)	(720)
Share issue costs *[note 12]*	**–**	(1,969)	–
Proceeds from issue of share capital *[note 12]*	**1,865**	961	3,490
Cash flows from (used in) financing activities	**(77,408)**	47,851	(35,967)
Foreign exchange loss on cash held in foreign currency	**(211)**	(312)	(683)
Net increase (decrease) in cash and cash equivalents	**220**	(9,747)	30,547
Cash and cash equivalents, beginning of the year	**28,143**	37,890	7,343
Cash and cash equivalents, end of the year	**28,363**	28,143	37,890

See accompanying notes

Stantec Inc.
Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Stantec Inc. (the Company) is a provider of comprehensive professional services in the area of infrastructure and facilities for clients in the public and private sectors. The Company's services include planning, engineering, architecture, interior design, landscape architecture, surveying and geomatics, environmental sciences, and project economics.

Generally accepted accounting principles

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below. The effects of differences between the application of Canadian and United States GAAP on the financial statements of the Company are described in note 21.

Effective January 1, 2005, the Company adopted Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities" (VIEs) of the Canadian Institute of Chartered Accountants (CICA) Handbook. VIEs are those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and requires the primary beneficiary of a VIE to consolidate the VIE. These consolidated financial statements include all VIEs for which the Company is the primary beneficiary. The initial adoption of this accounting guideline on a prospective basis did not have an impact on the Company's consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these consolidated financial statements include the percentage of completion of fixed-fee and variable-fee-with-ceiling contracts, provisions for losses on incomplete contracts, allowances for doubtful accounts receivable, provision for legal claims, provision for self-insured liabilities, the fair value of stock-based awards, the fair value of identifiable intangible assets acquired in business acquisitions, liabilities for lease exit activities, and future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes. Actual results may differ from these estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company, its subsidiary companies, and all VIEs for which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. The results of the operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Joint ventures and partnerships are accounted for on the proportionate consolidation basis, which results in the Company recording its pro rata share of the assets, liabilities, revenues, and expenses of each of these entities.

Cash and cash equivalents
Cash and cash equivalents include cash and unrestricted investments with initial maturities of three months or less. Such investments are carried at the lower of cost or market value.

Investments
Investments in associated companies over which the Company is able to exercise significant influence, but not control, are accounted for using the equity method, which reflects the Company's investment at original cost plus its share of earnings (losses) net of dividends received. These investments include Teshmont Consultants Inc. (50%), SSBV Consultants Inc. (33.3%), and Planning & Stantec Limited (50%).

Other investments, including investments held for self-insured liabilities, are recorded at cost. When a loss in the value of such investments occurs that is other than temporary, the investment is written down to recognize the loss.

Property and equipment
Property and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated at annual rates designed to write off the costs of assets over their estimated useful lives as follows:

Engineering equipment	20–30%	declining balance
Business information systems		straight-line over 3–5 years
Office equipment	20–30%	declining balance
Automotive equipment	30%	declining balance
Leasehold improvements		straight-line over term of lease to a maximum of 15 years or the improvement's economic life
Buildings	4–5%	declining balance

Leases
Leases that transfer substantially all the risks and benefits of ownership of assets to the Company are accounted for as capital leases. Assets under capital leases are recorded at the inception of the lease together with the related long-term obligation to reflect the purchase and financing thereof. Rental payments under operating leases are expensed evenly over the lease term.

From time to time, the Company enters into or renegotiates premises operating leases that result in the receipt of lease inducement benefits. These benefits are accounted for as a reduction of rental expense over the terms of the associated leases. As well, from time to time the Company enters into or renegotiates premises operating leases that include escalation clauses. The scheduled rent increases pursuant to lease escalation clauses are recognized on a straight-line basis over the lease term.

Goodwill and intangible assets
The cost of intangible assets with finite lives is amortized over the period in which the benefits of such assets are expected to be realized, principally on a straight-line basis. The Company's policy is to amortize client relationships with determinable lives over periods ranging from 10 to 15 years. Contract backlog is amortized over estimated contractual lives of generally less than one and a half years. Other intangible assets include technology, non-compete agreements, and advantageous leasehold commitments, which are amortized over estimated lives of one to five years. Goodwill is not amortized but is evaluated annually for

impairment by comparing the fair value of the reporting unit, determined on a discounted after-tax cash flow basis, to the carrying value. An impairment loss would be recognized if the carrying value of the goodwill were to exceed its fair value.

Long-lived assets

The Company monitors the recoverability of long-lived assets, including property and equipment and intangible assets with finite lives, employing factors such as expected future asset utilization, business climate, and future undiscounted cash flows expected to result from the use of the related assets. An impairment loss would be recognized if the carrying value of the long-lived asset were to exceed its fair value.

Accrual and investments held for self-insured liabilities

The Company self-insures certain risks related to professional liability and automobile physical damages. The accrual for self-insured liabilities includes estimates of the costs of reported claims (including potential claims that are probable of being asserted) and is based on estimates of loss using assumptions made by management, including consideration of actuarial projections. The accrual for self-insured liabilities does not include unasserted claims where assertion by a third party is not probable.

The Company invests funds to support the accrual for self-insured liabilities. These investments are classified in other assets as investments held for self-insured liabilities.

Forward contracts

The Company may enter into forward currency exchange contracts to manage risk associated with net operating assets denominated in US dollars. The Company's policy is to not use derivative financial instruments for trading or speculative purposes. These derivative contracts, which are not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. The fair value of such instruments is recorded as either accounts receivable or payable.

Non-interest-bearing debt

Non-interest-bearing debt is carried at its present value using discount rates based on the bank prime rate prevailing at the time the debt was issued. The discount is applied over the term of the debt and is charged to interest expense.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, bank loans, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The carrying amount of bank loans approximates its fair value because the applicable interest rate is based on variable reference rates. The carrying values of other financial assets and financial liabilities approximate their fair values except as otherwise disclosed in the financial statements.

Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, investments held for self-insured liabilities, and accounts receivable. The Company maintains an allowance for estimated credit losses and mitigates the risk of its investment in bonds through the overall quality and mix of its bond portfolio. The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic, or geographic sector.

Interest rate risk

The Company is subject to interest rate risk to the extent that its credit facilities are based on floating rates of interest. In addition, the Company is subject to interest rate pricing risk to the extent that its investments held for self-insured liabilities contain fixed rate government and corporate bonds. The Company has not entered into any derivative agreements to mitigate these risks.

Revenue recognition

In the course of providing its services, the Company incurs certain direct costs for subconsultants and other expenditures that are recoverable directly from clients. These direct costs are included in the Company's gross revenue. Since such direct costs can vary significantly from contract to contract, changes in gross revenue may not be indicative of the Company's revenue trends. Accordingly, the Company also reports net revenue, which is gross revenue less subconsultant and other direct expenses.

Revenue from fixed-fee and variable-fee-with-ceiling contracts is recognized using the percentage of completion method. Contract revenue is recognized on the ratio of contract costs incurred to total estimated costs. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined. Revenue from time and material contracts without stated ceilings and from short-term projects is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed. Costs and estimated earnings in excess of billings represents work in progress that has been recognized as revenue but not yet invoiced to clients. Billings in excess of costs and estimated earnings represents amounts that have been invoiced to clients but not yet recognized as revenue. Revenue does not include taxes collected from clients that are reimbursable to government authorities.

Employee benefit plans

The Company contributes to group retirement savings plans and an employee share purchase plan based on the amount of employee contributions subject to maximum limits per employee. The Company accounts for such defined contributions as an expense in the period in which the contributions are made. The expense recorded in 2006 was $11,567,000 (2005 – $8,436,000; 2004 – $7,311,000). The Company does not provide postemployment or postretirement benefits.

Foreign currency translation

Transactions denominated in a foreign currency and the financial statements of foreign subsidiaries (excluding US-based subsidiaries) included in the consolidated financial statements are translated as follows: monetary items at the rate of exchange in effect at the balance sheet date; non-monetary items at historical exchange rates; and revenue and expense items (except depreciation and amortization, which are translated at historical exchange rates) at the average exchange rate for the month. Any resulting gains or losses are included in income in the year incurred.

The Company's US-based subsidiaries are designated as self-sustaining operations. The financial statements of these subsidiaries are translated using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, and revenue and expense items (including depreciation and amortization) are translated at the average rate of exchange for the month. The resulting exchange gains and losses are deferred and included as a separate component of shareholders' equity in the cumulative translation account.

Stock-based compensation and other stock-based payments
The Company has one share option plan (described in note 12) and accounts for grants under this plan in accordance with the fair value-based method of accounting for stock-based compensation. Compensation expense for stock options awarded under the plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted. The Company estimates its forfeiture rate in order to determine its compensation expense arising from stock-based awards. In years prior to January 1, 2002, the Company recognized no compensation expense when shares or stock options were issued.

Income taxes
The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and the tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when these differences are expected to reverse.

Earnings per share
Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options is applied to purchase shares at the average price during the year and that the difference between the shares issued on the exercise of options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. The impact of outstanding restricted shares, on a weighted average basis, is also added to the number of shares outstanding. Antidilutive options are not considered in computing diluted earnings per share.

Allowance for doubtful accounts
The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability to collect on its accounts receivable. The Company uses estimates in arriving at its allowance for doubtful accounts that are based, primarily, on the age of the outstanding accounts receivable and on its historical collection and loss experience.

Recent accounting pronouncements
a) Financial instruments, equity, and comprehensive income
In January 2005, the CICA issued the new handbook Section 3855, "Financial Instruments—Recognition and Measurement"; Section 1530, "Comprehensive Income"; and Section 3251, "Equity," effective for annual and interim periods beginning on or after October 1, 2006. These pronouncements further aligned Canadian GAAP with US GAAP (note 21) and will require the following:

- Financial assets will be classified as either loans and receivables, held to maturity, held for trading, or available for sale. Held-to-maturity classification will be restricted to fixed maturity instruments that the Company intends and is able to hold to maturity and will be accounted for at amortized cost. Held-for-trading instruments will be recorded at fair value, with realized and unrealized gains and losses reported in net income. The remaining financial assets will be classified as available for sale. These assets will be recorded at fair value, with unrealized gains and losses reported in a new category of the consolidated balance sheets under shareholders' equity called "Other Comprehensive Income" until the financial asset is disposed, at which time the realized gains or losses will be

recognized in net income. Upon the initial adoption of these recommendations in fiscal 2007, the Company's investments held for self-insured liabilities will be reflected as investments available for sale.

- Financial liabilities will be classified as either held for trading or other. Held-for-trading instruments will be recorded at fair value, with realized and unrealized gains and losses reported in net income. Other instruments will be accounted for at amortized cost, with realized gains and losses reported in net income.

- Derivatives will be classified as held for trading unless designated as hedging instruments. All derivatives will be recorded at fair value on the consolidated balance sheets.

Upon the initial adoption of these recommendations in fiscal 2007, accumulated other comprehensive income will be included on the consolidated balance sheets as a separate component of shareholders' equity. Accumulated other comprehensive income will include, on a net of tax basis, net unrealized gains and losses on available-for-sale financial assets as well as unrealized foreign currency translation gains and losses on self-sustaining foreign operations, which is currently reflected in the Company's cumulative translation account.

The impact of recording the Company's investment held for self-insured liabilities at fair value on January 1, 2007, will be to increase other assets by approximately $493,000 and increase opening accumulated other comprehensive income by approximately $481,000 (after-tax). Accumulated other comprehensive income will also decrease by the $24,844,000 balance currently reported in the Company's cumulative translation account. Prior periods will not be restated.

b) Accounting changes

In July 2006, the CICA issued the new handbook Section 1506, "Accounting Changes," effective for annual and interim periods beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company of any new primary source of GAAP that has been issued but is not yet effective. This new standard is not expected to have a material effect on the Company's financial position or results of operations.

c) Financial instruments—disclosure and presentation

In November 2006, the CICA issued the new handbook Section 3862, "Financial Instruments—Disclosures," and Section 3863, "Financial Instruments—Presentation," effective for annual and interim periods beginning on or after October 1, 2007. These pronouncements further aligned Canadian GAAP with US GAAP (note 21). Early adoption of these recommendations is permitted. Section 3862 requires companies to provide disclosures in their financial statements that enable users to evaluate a) the significance of financial instruments for the company's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date and how the company manages these risks. Section 3863 establishes standards for the presentation of financial instruments. It addresses the classification of financial instruments between liabilities and equity; the classification of related interest, dividends, and losses and gains; and the circumstances in which financial assets and financial liabilities are offset. These new standards are not expected to have a material effect on the Company's financial position or results of operations.

d) Capital disclosures
In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the Company's financial position or results of operations.

e) International financial reporting standards
The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) over a transition period that is expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

2. Business Acquisitions

Acquisitions are accounted for under the purchase method of accounting, and the results of operations since the respective dates of acquisition are included in the consolidated statements of income. From time to time, as a result of the timing of acquisitions in relation to the Company's reporting schedule, certain of the purchase price allocations may not be finalized at the initial time of reporting. Purchase price allocations are completed after the vendors' final financial statements and income tax returns have been prepared and accepted by the Company. Such preliminary purchase price allocations are based on management's best estimates of the fair value of the acquired assets and liabilities. Upon finalization, adjustments to the initial estimates may be required, and these adjustments may be material.

The purchase prices of acquisitions are generally subject to price adjustment clauses included in the purchase agreements. Such purchase price adjustments generally result in an increase or reduction to the promissory note consideration recorded at acquisition to reflect either more or less non-cash working capital realized than was originally expected. These purchase price adjustments, therefore, have no net effect on the original purchase price allocations.

In the case of some acquisitions, additional consideration may be payable based on future performance parameters. As at December 31, 2006, there is no contingent consideration that may be payable in 2007 or future years (2005 – $9,000). Additional consideration is recorded as additional goodwill in the period in which the contingency is resolved.

Acquisitions in fiscal 2006
On March 6, 2006, the Company acquired the shares and business of Carinci Burt Rogers Engineering, Inc. for cash consideration and promissory notes. This acquisition supplemented the Company's buildings engineering capabilities and presence in the Greater Toronto Area.

On April 14, 2006, the Company acquired the shares and business of Dufresne-Henry, Inc. for cash consideration and promissory notes. Along with complementing the Company's New York operations, the acquisition expanded its services into four new states in New England and created an initial platform for growth in Florida. Dufresne-Henry, Inc.'s staff offer professional services in engineering, planning, environmental sciences, and landscape architecture.

On May 12, 2006, the Company acquired the shares and business of ACEx Technologies, Inc. for cash consideration and promissory notes. This acquisition complemented the Company's services in the areas of transit, rail and power communications, and control systems engineering and added new locations in Oakland, California, and Irving, Texas.

During 2006, the Company adjusted the purchase price on the Dunlop Architects Inc. (2004), CPV Group Architects & Engineers Ltd. (2005), Keen Engineering Co. Ltd. (2005), Carinci Burt Rogers Engineering, Inc. (2006), Dufresne-Henry, Inc. (2006), and ACEx Technologies, Inc. (2006) acquisitions pursuant to price adjustment clauses included in the purchase agreements.

During 2006, the purchase price allocations for the CPV Group Architects & Engineers Ltd., The Keith Companies, Inc. (Keith), the Keen Engineering Co. Ltd., and the Carinci Burt Rogers Engineering, Inc. acquisitions were finalized. The purchase price allocations for the Dufresne-Henry, Inc. and ACEx Technologies, Inc. acquisitions have not yet been finalized. The Company expects to finalize the purchase price allocations for the Dufresne-Henry, Inc. and ACEx Technologies, Inc. acquisitions during the first quarter of 2007.

Acquisitions in fiscal 2005

On August 3, 2005, the Company acquired the shares and business of CPV Group Architects & Engineers Ltd. for cash consideration. This acquisition strengthened the Company's architecture and interior design presence in Canada.

On September 15, 2005, the Company acquired the shares and business of Keith for a combination of cash consideration and Stantec common shares. Under the terms of the agreement, the number of common shares issued (6,657,552) as consideration was based on the average sale price of the Stantec common stock on the Toronto Stock Exchange for each of the 20 trading days ending on the second trading day prior to the closing of the merger, converted to US dollars for each trading day at the noon buying rate quoted by the Federal Reserve Bank of New York on such trading day. In order for the Keith transaction to qualify as a reorganization under the provisions of Section 368(a) of the U.S. Internal Revenue Code of 1986, a portion of Keith's cash, at the time of acquisition, is subject to restrictions on its use. Generally, the restricted cash can be used to fund further acquisitions as well as future capital expenditures. The acquisition of Keith supplemented the Company's urban land development services group along with increasing its multidiscipline engineering and consulting services by adding employees and offices throughout the western and midwestern United States.

On October 1, 2005, the Company acquired the shares and business of Keen Engineering Co. Ltd. for cash consideration and promissory notes. This acquisition supplemented the Company's building design services in Canada and the western United States.

During 2005, the Company paid additional contingent consideration in connection with the Cosburn Patterson Mather Limited (2002) acquisition and finalized the purchase price allocations for The Sear-Brown Group, Inc. (2004), GBR Architects Limited (2004), and Dunlop Architects Inc. (2004) acquisitions. In addition, the Company adjusted the purchase price on the Ecological Services Group Inc. (2003), GBR Architects Limited (2004), and Dunlop Architects Inc. (2004) acquisitions pursuant to price adjustment clauses included in the purchase agreements.

Aggregate consideration paid

Details of the aggregate consideration given and of the fair values of net assets acquired or adjusted for are as follows:

	Total 2006 $000s	Keith 2005 $000s	Other 2005 $000s	Total 2005 $000s
Cash consideration	**13,321**	107,062	11,200	118,262
Share consideration	**–**	125,540	–	125,540
Promissory notes	**6,308**	–	2,753	2,753
Purchase price	**19,629**	232,602	13,953	246,555
Assets and liabilities acquired at fair values				
Cash acquired	**1,140**	22,075	–	22,075
Restricted cash acquired	**–**	30,882	–	30,882
Bank indebtedness assumed	**(1,787)**	–	(4,196)	(4,196)
Non-cash working capital	**12,294**	9,747	3,929	13,676
Property and equipment	**3,078**	5,751	991	6,742
Investments	**–**	32	–	32
Goodwill	**8,306**	149,844	12,218	162,062
Other long-term assets	**–**	554	–	554
Intangible assets				
Client relationships	**1,219**	17,476	947	18,423
Contract backlog	**388**	3,995	1,053	5,048
Other	**101**	669	(139)	530
Other long-term liabilities	**(2,146)**	(1,380)	243	(1,137)
Long-term debt	**(551)**	–	(745)	(745)
Future income taxes	**(2,413)**	(8,226)	(348)	(8,574)
Deferred stock compensation	**–**	1,183	–	1,183
Net assets acquired	**19,629**	232,602	13,953	246,555

All of the goodwill is non-deductible for income tax purposes.

At the time of acquisition, management estimates the exit costs of downsizing or closing offices occupied by the acquired entity. These costs are accrued in other long-term liabilities as part of the purchase price allocation (note 9).

Pro forma data

The following unaudited pro forma data presents information as if the acquisitions of CPV Group Architects & Engineers Ltd., Keith, Keen Engineering Co. Ltd., Carinci Burt Rogers Engineering, Inc., Dufresne-Henry, Inc., and ACEx Technologies, Inc. had occurred on January 1, 2005. This unaudited pro forma data is provided for information purposes only and is based on historical information. This unaudited pro forma data does not necessarily reflect the actual results of operations that would have occurred if these acquired entities and Stantec Inc. had comprised a single entity during the periods since January 1, 2005, nor is it necessarily indicative of the future results of the operations of the combined entities.

	2006	2005
	(In thousands of Canadian dollars, except per share amounts) (Unaudited)	
Pro forma gross revenue	**830,356**	799,545
Pro forma net revenue	**719,371**	684,215
Pro forma net income	**59,987**	49,289
Basic pro forma earnings per share	**1.33**	1.11
Diluted pro forma earnings per share	**1.31**	1.08

3. Property and Equipment

	2006		2005	
	Cost $000s	Accumulated Depreciation $000s	Cost $000s	Accumulated Depreciation $000s
Engineering equipment	**48,783**	**27,454**	42,560	22,736
Business information systems	**13,755**	**7,097**	11,475	4,237
Office equipment	**25,315**	**12,760**	23,030	10,071
Automotive equipment	**6,765**	**3,850**	5,263	2,867
Leasehold improvements	**20,240**	**4,244**	14,226	2,053
Buildings	**5,574**	**913**	4,204	704
Land	**895**	**–**	429	–
	121,327	**56,318**	101,187	42,668
Net book value	**65,009**		58,519	

Included in leasehold improvements is construction work in progress in the amount of $292,000 (2005 – buildings – $337,000) on which depreciation has not started.

4. Goodwill

	2006 $000s	2005 $000s
Goodwill, beginning of the year	**242,674**	84,694
Current year acquisitions	**6,618**	160,840
Additional purchase price payments	**–**	700
Other purchase price adjustments	**1,688**	522
Impact of foreign exchange	**511**	(4,082)
Goodwill, end of the year	**251,491**	242,674

5. Intangible Assets

	2006		2005	
	Gross Carrying Amount $000s	Accumulated Amortization $000s	Gross Carrying Amount $000s	Accumulated Amortization $000s
Client relationships	**26,140**	**4,692**	24,914	2,232
Contract backlog	**4,316**	**3,587**	4,900	1,219
Other	**948**	**306**	1,218	277
	31,404	**8,585**	31,032	3,728
Carrying amount	**22,819**		27,304	

Once an intangible asset is fully amortized, the gross carrying amount and related accumulated amortization are removed from the accounts. Other than goodwill, the Company has not recorded any intangible assets with indefinite lives. For intangible assets held as of December 31, 2006, the estimated aggregate amortization expense for each of the next five years is as follows:

	$000s
2007	3,435
2008	2,706
2009	2,642
2010	2,483
2011	2,470
Thereafter	9,083
	22,819

6. Other Assets

	2006 $000s	2005 $000s
Investments held for self-insured liabilities	**22,720**	16,857
Investments in associated companies	**1,347**	1,545
Investments – other	**823**	710
Other	**1,676**	554
	26,566	19,666
Less current portion of investments held for self-insured liabilities	**8,228**	6,569
	18,338	13,097

Investments held for self-insured liabilities consist of government and corporate bonds of $15,589,000 (2005 – $14,013,000) and equity securities of $7,131,000 (2005 – $2,844,000). The bonds bear interest at rates ranging from 2.9 to 7.0% per annum (2005 – 3.0 to 6.8%). The estimated fair value of the bonds at December 31, 2006, was $15,458,000 (2005 – $13,721,000) and of the equities was $7,755,000 (2005 – $3,406,000). The term to maturity of the bond portfolio is $1,861,000 (2005 – $373,000) due within one year, $12,005,000 (2005 – $9,693,000) due from two to five years, and $1,723,000 (2005 – $3,947,000) due from six to 10 years.

7. Accounts Payable and Accrued Liabilities

	2006 $000s	2005 $000s
Trade accounts payable	**26,188**	26,784
Employee and payroll liabilities	**63,771**	52,314
Accrued liabilities	**17,173**	27,659
	107,132	106,757

8. Long-Term Debt

	2006 $000s	2005 $000s
Non-interest-bearing note payable	**134**	122
Other notes payable	**7,935**	5,643
Bank loan	**8,158**	79,035
Mortgages payable	**–**	1,706
Other	**–**	193
	16,227	86,699
Less current portion	**4,181**	4,813
	12,046	81,886

The non-interest-bearing note payable is due November 1, 2027, in the amount of $933,000. The note's carrying value of $134,000 is determined using a discount rate of 9.75%. If the non-interest-bearing note payable were discounted at interest rates in effect at December 31, 2006, the fair value of the note would be $203,000 (2005 – $184,000).

The carrying values of the other notes payable have been calculated using a weighted average rate of interest of 4.7% and may be supported by promissory notes. The notes are due at various times from 2007 to 2009. The aggregate maturity value of the notes is $8,154,000 (2005 – $5,985,000). As at December 31, 2006, $1,357,000 of the notes' carrying value was payable in US funds (US$1,164,000). As at December 31, 2005, there were no US-dollar notes outstanding. The carrying value of the other notes payable approximates their fair value based on interest rates in effect at December 31, 2006.

The Company has a revolving credit facility in the amount of $160 million that expires on August 31, 2009. This facility is available for acquisitions, working capital needs, capital expenditures, and general corporate purposes. Depending on the form under which the credit facility is accessed, rates of interest will vary between Canadian prime, US base rate, or LIBOR rate or bankers acceptance rates plus 65 or 85 basis points. As at December 31, 2006, $8,158,000 of the bank loan was payable in US funds (US$7,000,000). As at December 31, 2005, $29,075,000 of the bank loan was payable in US funds (US$25,000,000). Loans may be repaid under the credit facility from time to time at the option of the Company. The average interest rate applicable at December 31, 2006, was 6.00% (2005 – 4.34%). The credit facility agreement contains restrictive covenants, including, but not limited to, debt to earnings ratio and earnings to debt service ratio. The Company was in compliance with all the covenants under this agreement as at and throughout the year ended December 31, 2006. All the assets of the Company are held as collateral under a general security agreement for the bank loan.

The funds available under the revolving credit facility are reduced by any outstanding letters of credit. At December 31, 2006, the Company had issued and outstanding letters of credit totaling $1,949,000 (2005 – $1,070,000) that expire at various dates before January 2008. These letters of credit were issued in the normal course of operations, including the guarantee of certain office rental obligations. At December 31, 2006, $149,893,000 was available in the revolving credit facility for future activities.

In 2006 the Company paid out in full all mortgages payable. The average interest rate applicable at December 31, 2005, was 7.67%.

The principal repayments required on long-term debt in each of the next five years and thereafter are as follows:

	$000s
2007	4,181
2008	3,032
2009	8,880
2010	–
2011	–
Thereafter	134
	16,227

The interest incurred on long-term debt in 2006 was $2,612,000 (2005 – $2,000,000; 2004 – $2,219,000). In 2006 total interest expense, net of interest income, was $1,892,000 (2005 – $571,000; 2004 – $2,805,000).

9. Other Liabilities

	2006 $000s	2005 $000s
Provision for self-insured liabilities	**16,041**	11,346
Deferred gain on sale leaseback	**6,187**	6,624
Lease inducement benefits	**10,499**	7,997
Liabilities on lease exit activities	**2,833**	2,251
Other	**2,333**	1,021
	37,893	29,239
Less current portion included in accrued liabilities	**4,332**	4,475
	33,561	24,764

Provision for self-insured liabilities

Effective August 1, 2003, the Company began self-insuring a portion of its estimated liabilities that may arise in connection with reported legal claims (note 11). This provision is based on the results of an actuarial review performed in 2006 and 2005, with the current and long-term portion determined based on the actuarial estimate provided. At December 31, 2006, the long-term portion was $14,492,000 (2005 – $10,288,000).

	2006 $000s	2005 $000s
Provision, beginning of the year	**11,346**	5,236
Current year provision	**6,329**	8,244
Payment for claims settlement	**(2,087)**	(2,134)
Impact of foreign exchange	**453**	–
Provision, end of the year	**16,041**	11,346

The self-insured liability increased during 2006 primarily due to new claims incurred and reported since the end of 2005. Claim settlements of $2,087,000 were made in 2006 (2005 – $2,134,000). The timing of such settlement payments is dependent upon the resolution of case-specific matters and may extend over several months or years.

Deferred gain on sale leaseback

In 2004 the Company completed the sale of its office building in Edmonton, Alberta, (included in buildings and land) for cash proceeds of $34,500,000. Concurrent with the sale, the Company leased the property back for a period of 15 years. The lease is accounted for as an operating lease. The resulting gain of $7,103,000 was deferred and is being amortized over the lease term.

Liabilities on lease exit activities

Charges are accrued when management closes offices in existing operations or finalizes plans to downsize offices in locations assumed from an acquiree upon a business acquisition. Included in the liability is the present value of the remaining lease payments, reduced by estimated sublease rentals that can reasonably be obtained.

	2006 $000s	2005 $000s
Liability, beginning of the year	**2,251**	2,817
Current year provision:		
Established for existing operations	**96**	609
Resulting from acquisitions	**2,146**	276
Payment or reductions:		
Impacting administrative and marketing expenses	**(1,649)**	(1,103)
Impacting the purchase price allocation	–	(325)
Impact of foreign exchange	**(11)**	(23)
Liability, end of the year	**2,833**	2,251

10. Commitments

Commitments for annual basic premises rent under long-term leases and for equipment and vehicle operating leases for the next five years are as follows:

	$000s
2007	35,748
2008	30,365
2009	27,136
2010	23,739
2011	19,294
Thereafter	74,678
	210,960

The premise rental expense for the year ended December 31, 2006, was $35,724,000 (2005 – $29,282,000; 2004 – $25,116,000).

In connection with acquisitions performed in the year, we entered into commitments to pay retention bonuses of $5.1 million over the next three years to May 13, 2009.

11. Contingencies and Guarantees

In the normal conduct of operations, various legal claims are pending against the Company alleging, among other things, breaches of contract or negligence in connection with the performance of consulting services. The Company carries professional liability insurance, subject to certain deductibles and policy limits, and has a captive insurance company that provides insurance protection against such claims. In some cases, parties are seeking damages that substantially exceed the Company's insurance coverage. Based on advice and information provided by legal counsel, the Company's previous experience with the settlement of similar claims, and the results of the annual actuarial review, management believes that the Company has recognized adequate provisions for probable and reasonably estimable liabilities associated with these claims and that their ultimate resolutions will not materially exceed insurance coverages or have a material adverse effect on the Company's consolidated financial position or annual results of operations. Management cannot estimate the extent to which losses exceeding those already recorded in the financial statements may be incurred.

In the normal course of business, the Company provides indemnifications and, in very limited circumstances, bonds, which are often standard contractual terms, to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing transactions. The Company also indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. These indemnifications may require the Company to compensate the counterparty for costs incurred as a result of various events, including changes in or in the interpretation of laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnifications will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. The Company carries liability insurance, subject to certain deductibles and policy limits, that provides protection against certain insurable indemnifications. Historically, the Company has not made any significant payments under such indemnifications, and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnifications.

12. Share Capital

Authorized

Unlimited	Common shares, with no par value
Unlimited	Preferred shares issuable in series with attributes designated by the Board of Directors

Common shares issued and outstanding

	Capital Stock						Contributed Surplus		
	2006		2005		2004		2006	2005	2004
	Shares #	$000s	Shares #	$000s	Shares #	$000s	$000s	$000s	$000s
Balance, beginning of the year	**44,626,262**	**210,604**	37,742,170	87,656	36,654,568	84,281	**5,522**	2,544	1,842
Share options exercised for cash	**607,080**	**1,865**	240,140	961	1,146,202	3,490			
Stock-based compensation expense							**1,078**	963	725
Shares repurchased under Normal Course Issuer Bid	**(51,600)**	**(243)**	(13,600)	(33)	(58,600)	(134)	**(6)**	(1)	(4)
Reclassification of fair value of stock options previously expensed		**239**		159		19	**(239)**	(159)	(19)
Shares issued on acquisition	–	–	6,657,552	123,365	–				
Shares issued on vesting of restricted shares .	**20,043**	**316**	–	–	–	–	**(897)**	–	–
Restricted shares issued on acquisition							–	2,175	–
Share issue costs . .		–		(1,504)		–			
Balance, end of the year	**45,201,785**	**212,781**	44,626,262	210,604	37,742,170	87,656	**5,458**	5,522	2,544

During 2006, 51,600 common shares (2005 – 13,600; 2004 – 58,600) were repurchased for cancellation pursuant to an ongoing Normal Course Issuer Bid at a cost of $1,016,000 (2005 – $195,000; 2004 – $720,000). Of this amount, $243,000 and $6,000 (2005 – $33,000 and $1,000; 2004 – $134,000 and $4,000) reduced the share capital and contributed surplus accounts, respectively, with $767,000 (2005 – $161,000; 2004 – $582,000) being charged to retained earnings.

During 2006, the Company did not incur any share issue costs. During 2005, the Company incurred share issue costs of $1,969,000 less a future tax recovery of $465,000.

During 2006, the Company recognized a stock-based compensation expense of $2,224,000 (2005 – $1,814,000; 2004 – $1,014,000) in administrative and marketing expenses. Of the amount expensed, $1,078,000 related to the fair value of options granted (2005 – $963,000; 2004 – $725,000), $576,000 related to deferred share unit compensation (2005 – $519,000; 2004 – $289,000), and $570,000 related to the restricted shares issued on the Keith acquisition (2005 – $332,000). The fair value of options granted was reflected through contributed surplus; the deferred share unit compensation was reflected through accrued liabilities; and the restricted shares were reflected through deferred stock compensation. Upon the exercise of share options for which a stock-based compensation expense has been recognized, the cash paid together with the related portion of contributed surplus is credited to share capital. Upon the vesting of restricted shares for which a stock-based compensation expense has been recognized, the related portion of contributed surplus is credited to share capital.

On May 4, 2006, the shareholders of the Company approved the subdivision of its issued common shares on a two-for-one basis, effective for registered common shares at the close of business on May 19, 2006. All references to common shares, per share amounts, and stock-based compensation plans in these consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

Share options

Under the Company's share option plan, options to purchase common shares may be granted by the Board of Directors to officers and employees. Options are granted at exercise prices equal to or greater than fair market value at the issue date, generally vest evenly over a three-year period, and have contractual lives that range from seven to 10 years. The aggregate number of common shares reserved for issuance that may be purchased upon the exercise of options granted pursuant to the plan shall not exceed 4,514,126 common shares (on a postsplit basis). At December 31, 2006, 2,643,668 options were available for issue.

The Company has granted share options to officers and employees (and to directors prior to May 1999) to purchase 1,702,784 shares at prices between $1.80 and $20.42 per share. These options expire on dates between February 5, 2007, and August 29, 2013.

	2006		**2005**		**2004**	
	Shares #	**Weighted Average Exercise Price $**	**Shares #**	**Weighted Average Exercise Price $**	**Shares #**	**Weighted Average Exercise Price $**
Share options, beginning of the year	**1,876,528**	**6.94**	2,142,666	6.67	2,958,200	4.64
Granted	**471,000**	**20.40**	–	–	334,000	12.25
Exercised	**(607,080)**	**3.07**	(240,140)	4.00	(1,146,202)	3.05
Cancelled	**(37,664)**	**12.48**	(25,998)	11.85	(3,332)	9.20
Share options, end of the year	**1,702,784**	**11.92**	1,876,528	6.94	2,142,666	6.67

The options held by directors, officers, and employees at December 31, 2006, were as follows:

Options Outstanding				Options Exercisable		
Range of Exercise Prices $	Outstanding #	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price $	Shares Exercisable #	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price $
1.80	238,000	0.10	1.80	238,000	0.10	1.80
3.50	21,000	0.29	3.50	21,000	0.29	3.50
7.25 – 9.42	283,800	3.09	7.88	283,800	3.09	7.88
10.50 – 13.55	693,984	4.80	11.61	479,320	4.46	11.17
20.37 – 20.42	466,000	6.65	20.40	–	–	–
1.80 – 20.42	1,702,784	4.31	11.92	1,022,120	2.98	7.92

The fair value of options granted subsequent to January 1, 2002, is determined at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's employee stock options have characteristics that are significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

The estimated fair value of options granted both at the share market price on the grant date and in excess of the share market price on the grant date was determined using the weighted average assumptions indicated below. No options were granted in 2005.

	2006 Granted at Market	2004 Granted at Market
Risk-free interest rate (%)	**4.05**	4.07
Expected hold period to exercise (years)	**6.0**	6.0
Volatility in the price of the Company's shares (%)	**29.4**	26.1
Weighted average fair value per option ($)	**7.59**	4.23

The expected volatility was based on the historical volatility of the Company's stock over a period commensurate with the expected term of the stock option. The risk-free interest rate for the expected life of the options was based on the yield available on government bonds, with an approximate equivalent remaining term at the time of the grant. Historical data was used to estimate the expected life of the option.

A summary of the status of the Company's non-vested options as of December 31, 2006, and of changes in the year is as follows:

	Number of Shares Subject to Option #	Weighted Average Grant Date Fair Value $
Non-vested share options, beginning of the year	488,259	3.67
Granted	471,000	7.59
Vested	(243,931)	3.78
Cancelled	(34,664)	4.59
Non-vested share options, end of the year	**680,664**	**6.29**

As of December 31, 2006, 680,664 options remained unvested, and a total unrecognized compensation cost of $3,181,000 related to the Company's stock option plans. This cost is expected to be recognized over a weighted average period of 2.23 years.

For all outstanding options at December 31, 2006, the aggregate intrinsic value was $22.7 million. For fully vested share options and share options expected to vest at December 31, 2006, the aggregate intrinsic value was $22.3 million. For options exercisable at December 31, 2006, the intrinsic value at December 31, 2006, was $17.7 million. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005, and 2004, was $9.8 million, $2.7 million, and $10.7 million, respectively.

Deferred share units

Under the Company's deferred share unit plan, outside directors of the Company may receive deferred share units equal to one common share. Upon death or retirement, deferred share units are paid out to the directors in the form of cash at the market price of the Company's common shares on the last trading day of the month of death or retirement. Deferred share units cannot be paid in the form of Company shares. In 2006, $159,000 deferred share units were paid (2005 – nil; 2004 – $120,000). These units are recorded at fair value based on the current market price of the Company's common shares. As at December 31, 2006, 48,000 units were outstanding (2005 – 40,000; 2004 – 20,800).

Restricted shares

In 2005 the former shareholders of Keith received restricted shares in connection with the acquisition of Keith. These restricted shares vest over a period ending April 1, 2008. Upon the vesting of restricted shares, common shares are issued. As at December 31, 2006, 55,666 restricted shares were outstanding (2005 – 117,392; 2004 – nil).

13. Cumulative Translation Account

The foreign currency cumulative translation account represents the unrealized gain or loss on the Company's net investment in self-sustaining US-based operations. The change in the cumulative translation account during the year relates to the fluctuation in the value of the Canadian dollar relative to the US dollar. Balance sheet accounts denominated in US dollars have been translated to Canadian dollars at the rate of 1.1654 (2005 – 1.1630; 2004 – 1.2020).

	2006 $000s	2005 $000s	2004 $000s
Cumulative translation account, beginning of the year	**(25,575)**	(19,018)	(13,861)
Current year deferred translation adjustment	**731**	(6,557)	(5,157)
Cumulative translation account, end of the year	**(24,844)**	(25,575)	(19,018)

14. Income Taxes

The effective income tax rate in the consolidated statements of income differs from statutory Canadian tax rates as a result of the following:

	2006 %	2005 %	2004 %
Income tax expense at statutory Canadian rates	**34.1**	34.8	34.7
Increase (decrease) resulting from:			
Income from associated companies	**(0.1)**	(0.1)	(0.3)
Rate differential on foreign income	**1.1**	0.7	(2.0)
Non-deductible expenses:			
Meals and entertainment	**0.9**	1.1	1.4
Stock compensation	**0.3**	0.5	0.6
Non-taxable foreign income net of non-creditable withholding taxes	**(2.9)**	(1.6)	(1.3)
Other	**(0.7)**	(0.4)	(0.7)
	32.7	35.0	32.4

Since the Company operates in several tax jurisdictions, its income is subject to various rates of taxation. The details of income before income taxes are as follows:

	2006 $000s	2005 $000s	2004 $000s
Domestic	**79,109**	61,323	48,111
Foreign	**10,315**	1,177	(3,451)
Total income before income taxes	**89,424**	62,500	44,660

The details of the income tax expense (recovery) are as follows:

		2006 $000s	2005 $000s	2004 $000s
Current:	Domestic	**25,766**	21,172	17,724
	Foreign	**5,718**	563	341
Total current expense		**31,484**	21,735	18,065
Future:	Domestic	**725**	5	(566)
	Foreign	**(2,967)**	138	(3,029)
Total future expense		**(2,242)**	143	(3,595)
Total:	Domestic	**26,491**	21,177	17,158
	Foreign	**2,751**	701	(2,688)
Total income tax expense		**29,242**	21,878	14,470

Significant components of the Company's future income tax assets and liabilities are as follows:

	2006 $000s	2005 $000s
Future income tax assets		
Differences in timing of deductibility of expenses	**12,599**	13,470
Loss carryforwards	**4,199**	4,670
Share issue and other financing costs	**347**	519
Tax cost of property and equipment in excess of carrying value	**332**	357
Deferred gain on sale of building	**1,359**	1,513
Other	**859**	1,112
	19,695	21,641
Less current portion	**9,711**	14,827
	9,984	6,814

	2006 $000s	2005 $000s
Future income tax liabilities		
Cash to accrual adjustments on acquisitions of US subsidiaries	**2,512**	–
Differences in timing of taxability of revenues	**10,463**	15,287
Carrying value of property and equipment in excess of tax cost	**7,970**	7,304
Carrying value of intangible assets in excess of tax cost	**8,822**	10,625
Other	**742**	598
	30,509	33,814
Less current portion	**12,236**	17,552
	18,273	16,262

At December 31, 2006, loss carryforwards of approximately $3,541,000 are available to reduce the taxable income of certain Canadian subsidiaries. These losses expire as set out below:

	$000s
2007	–
2008	541
2009	66
2010	977
2014	663
2015	18
2026	1,276
	3,541

In addition, the Company has loss carryforwards of approximately $7,885,000 that are available to reduce the taxable income of certain US subsidiaries and that expire at varying times over the next 20 years.

The potential income tax benefits that will result from the application of Canadian and US tax losses have been recognized in these financial statements.

15. Earnings Per Share

The number of basic and diluted common shares outstanding, as calculated on a weighted average basis, is as follows:

	2006 #	2005 #	2004 #
Basic shares outstanding	**45,068,266**	39,840,234	36,999,196
Share options (dilutive effect of 1,702,784 options; 2005 – 1,876,528; 2004 – 2,082,666)	**648,430**	1,067,584	1,015,382
Restricted shares (dilutive effect of 55,666 restricted shares; 2005 – 117,392)	**74,813**	34,414	–
Diluted shares outstanding	**45,791,509**	40,942,232	38,014,578

In 2004, 60,000 antidilutive options were not considered in computing diluted earnings per share.

16. Cash Flows From (Used In) Operating Activities

Cash flows from operating activities determined by the indirect method are as follows:

	2006 $000s	2005 $000s	2004 $000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year	**60,182**	40,622	30,190
Add (deduct) items not affecting cash:			
Depreciation of property and equipment	**15,604**	12,389	11,986
Amortization of intangible assets	**6,132**	2,542	927
Future income tax	**(2,242)**	143	(3,595)
Loss (gain) on dispositions of investments and property and equipment	**(1,238)**	562	(504)
Stock-based compensation expense	**2,224**	1,814	1,014
Provision for self-insured liability	**6,329**	8,244	2,826
Other non-cash items	**(994)**	(1,332)	(1,065)
Share of income from equity investments	**(285)**	(187)	(385)
Dividends from equity investments	**450**	550	300
	86,162	65,347	41,694
Change in non-cash working capital accounts:			
Accounts receivable	**(15,345)**	15,748	(1,542)
Costs and estimated earnings in excess of billings	**24,257**	(19,572)	30,218
Prepaid expenses	**(269)**	487	496
Accounts payable and accrued liabilities	**(3,958)**	(1,177)	(6,470)
Billings in excess of costs and estimated earnings	**4,590**	1,664	1,600
Income taxes payable/recoverable	**(2,048)**	(5,183)	11,355
	7,227	(8,033)	35,657
Cash flows from operating activities	**93,389**	57,314	77,351

17. Joint Ventures

The Company participates in joint ventures with other parties as follows:

	Percentage Owned		
	2006	2005	2004
	%	%	%
yyC.T. Joint Venture	**17**	20	20
Stantec – S&L Partnership	**50**	50	50
Colt Stantec Joint Venture	**n/a**	n/a	50
Edmonton International Airports Joint Venture	**33**	33	33
Pine Creek Consultants Joint Venture	**33**	33	33
Dunlop Joint Ventures	**33–80**	33–80	33–80
Stantec Architecture Ltd./J.L. Richards & Associates Joint Venture	**50**	50	n/a

As part of the acquisition of Dunlop Architects Inc. (Dunlop), the Company acquired the interests of 13 joint ventures entered into by Dunlop, with 11 remaining active as at December 31, 2006. The interest held in these joint ventures ranges from 33 to 80%, and each is project specific.

A summary of the assets, liabilities, revenues, expenses, and cash flows included in the consolidated financial statements related to joint ventures is as follows:

	2006	2005	2004
	$000s	$000s	$000s
Statements of income			
Gross revenue	**4,451**	5,941	1,186
Subconsultant and other direct expenses	**4,612**	5,072	894
Administrative and marketing expenses	**75**	147	217
Net (loss) income for the year	**(236)**	722	75
Balance sheets			
Current assets	**2,086**	3,743	3,445
Current liabilities	**1,800**	2,842	2,822
Statements of cash flows			
Cash flows from (used in) operating activities	**173**	(488)	(274)

18. Segmented Information

The Company provides comprehensive professional services in the area of infrastructure and facilities throughout North America and internationally. The Company considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the Chief Executive Officer of the Company, and the Company's operating segments are based on its regional geographic areas.

In 2006 the Company had three operating segments (2005 – five operating segments) that were aggregated into the Consulting Services reportable segment. Prior to 2005, the Company had eight operating segments, six of which were aggregated into Consulting Services. The two remaining operating segments (Design Build and Technology), which were below the quantitative thresholds in the recommendations of the CICA, were disclosed in the Other reportable segment. During 2004, the Company sold the operations relating to the Design and Technology segments. These operations were not presented as discontinued operations, because the amounts were not material.

Geographic information

	Property and Equipment, Goodwill, Intangible Assets	
	2006	2005
	$000s	$000s
Canada	**106,497**	104,463
United States	**232,387**	223,593
International	**435**	441
	339,319	328,497

Geographic information

	Gross Revenue		
	2006	2005	2004
	$000s	$000s	$000s
Canada	**461,281**	380,471	325,844
United States	**348,055**	233,428	190,362
International	**6,797**	4,121	4,673
	816,133	618,020	520,879

Gross revenue is attributed to countries based on the location of the work performed.

Practice area information

	Gross Revenue		
	2006	2005	2004
	$000s	$000s	$000s
Consulting Services			
Buildings	**184,254**	147,432	98,020
Environment	**149,376**	103,353	104,630
Industrial & Project Management	**94,806**	67,834	56,929
Transportation	**106,026**	90,559	91,389
Urban Land	**281,671**	208,842	168,846
	816,133	618,020	519,814
Other	**–**	–	1,065
	816,133	618,020	520,879

Comparative figures are restated due to a realignment of practice areas in 2006.

Customers

The Company has a large number of clients in various industries and sectors of the economy. Gross revenue is not concentrated in any particular client.

19. Forward Contract

As at December 31, 2006, the Company had entered into a foreign currency forward contract that provided for the sale of US$4.5 million at the rate of 1.1608 per US dollar. This derivative financial instrument was entered into to mitigate foreign currency fluctuation risk on net operating assets denominated in US dollars. The fair value of this contract, estimated using market rates at December 31, 2006, was a loss of $19,167. During 2006, the unrealized loss relating to this derivative financial instrument was recorded in foreign exchange gains. No forward contracts were outstanding at December 31, 2005.

20. Investment Tax Credits

Investment tax credits arising from qualifying scientific research and experimental development efforts pursuant to existing tax legislation are recorded as a reduction of the applicable administrative and marketing expenses when there is reasonable assurance of their ultimate realization. Investment tax credits of $500,000 (2005 – $1,239,000; 2004 – $426,000) were recorded and reduced administrative and marketing expenses in 2006.

21. United States Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with accounting principles generally accepted in Canada (Canadian GAAP) that, in most respects, conform to accounting principles generally accepted in the United States (US GAAP). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with US GAAP. Investments in joint ventures are accounted for using the equity method under US GAAP, whereas Canadian GAAP requires the proportionate consolidation method. As permitted by the U.S. Securities and Exchange Commission, no disclosure of the effect of this difference is required.

a) Net income and comprehensive income

There are no identifiable material items that would result in a change in net income presented under Canadian and US GAAP.

Comprehensive income is measured in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners and includes adjustments arising on the translation of self-sustaining foreign operations. As well, under US GAAP, comprehensive income includes the difference between the recorded and fair value of the Company's investments held for self-insured liabilities since these investments are classified as available for sale (note 6). Canadian GAAP does not yet require similar disclosure.

Statement of Comprehensive Income

	2006 $000s	2005 $000s	2004 $000s
Net income under Canadian and US GAAP	**60,182**	40,622	30,190
Other comprehensive income, net of tax:			
Unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations	**731**	(6,557)	(5,157)
Unrealized gains on financial assets	**217**	227	37
Comprehensive Income	**61,130**	34,292	25,070
Accumulated other comprehensive income, beginning of the year	**(25,311)**	(18,981)	(13,861)
Unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations	**731**	(6,557)	(5,157)
Unrealized gains on financial assets	**217**	227	37
Accumulated other comprehensive income, end of the year	**(24,363)**	(25,311)	(18,981)

b) Other disclosure requirements

i) Allowance for doubtful accounts

	2006 $000s	2005 $000s	2004 $000s
Balance, beginning of the year	**16,053**	21,095	16,952
Acquired balances	**2,069**	7,298	5,294
Provision for doubtful accounts	**2,182**	73	6,632
Deductions	**(13,118)**	(12,164)	(7,152)
Impact on foreign exchange	**193**	(249)	(631)
Balance, end of the year	**7,379**	16,053	21,095

ii) Long-term contracts

Included in accounts receivable are holdbacks on long-term contracts of $2,278,000 in 2006 and of $1,431,000 in 2005.

c) Recent accounting pronouncements

Stock-based compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), effective for the first interim or annual financial statements beginning on or after June 15, 2005. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company recognizes share-based payments at fair value for options granted subsequent to January 1, 2002, using the Black-Scholes option-pricing model. The Company has adopted SFAS 123R using the modified-prospective application transition method. The adoption of the modified-prospective transition method has resulted in no additional share option expense being recognized as part of the reconciliation of Canadian and US GAAP disclosures in these consolidated financial statements.

Uncertainty in income taxes

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FAS Statement No. 109" (FIN 48), effective for fiscal years beginning on or after December 15, 2006. FIN 48 creates a single model for addressing the accounting for uncertainty in tax positions. It also clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in financial statements. In addition, this interpretation provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company will adopt FIN 48 as of January 1, 2007, as required. The adoption of this pronouncement is not expected to have a material effect on the Company's financial position or results of operations.

Fair value measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), effective for fiscal years beginning after November 15, 2007. SFAS 157 establishes a framework for measuring fair value under US GAAP and requires additional disclosure. The statement defines a fair value hierarchy, with the highest priority being quoted prices in active markets. Under this statement, fair value measurements are disclosed by level within the hierarchy. This standard does not require any new fair value measurements. The Company is currently considering the impact of the adoption of this interpretation on its consolidated financial statements.

22. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

Left to right: Aram Keith, Ivor Ruste (as of February 21, 2007), Bill Grace, Tony Franceschini, Robert Bradshaw, Susan Hartman, Ron Triffo, Robert Mesel, Jack Finn (until May 3, 2007).

Board of Directors

Aram Keith
Irvine, California
Vice Chairman of the Board,
Stantec Inc.

Robert J. Bradshaw [2]
Toronto, Ontario
Chairman,
Contor Industries Limited

E. John (Jack) Finn [1]
Madison, Connecticut
Corporate Director

Robert R. Mesel [1]
Kiawah Island, South Carolina
Corporate Director

Anthony P. Franceschini
Edmonton, Alberta
President & CEO,
Stantec Inc.

William D. Grace [1, 2]
Edmonton, Alberta
Corporate Director

Susan E. Hartman [2]
Rochester, New York
President and Owner,
The Hartman Group

Ivor Ruste [1]
Calgary, Alberta
Vice President, Finance,
EnCana Corporation

Ronald P. Triffo
Edmonton, Alberta
Chairman of the Board,
Stantec Inc.

[1] Audit Committee
[2] Corporate Governance and Compensation Committee

Officers

Ronald P. Triffo
Chairman

Anthony P. Franceschini
President & CEO

Donald W. Wilson
Vice President & CFO

Jeffrey S. Lloyd
Vice President & Secretary

Michael J. Slocombe
Associate General Counsel

Shareholder Information

Transfer Agent

Computershare Trust
Company of Canada
Calgary, Alberta

Auditors

Ernst & Young LLP
Chartered Accountants
Edmonton, Alberta

Principal Bank

Canadian Imperial Bank
of Commerce

Securities Exchange Listing

Stantec shares are traded on the TSX under the symbol STN and on the NYSE under the symbol SXC.

Investor Relations

Stantec Inc.
10160 - 112 Street
Edmonton AB
Canada T5K 2L6
Tel: (780) 917-7000
Fax: (780) 917-7330
ir@stantec.com

Annual and Special Meeting

May 3, 2007
11:00 AM
Stantec Centre
10160 - 112 Street
Edmonton, Alberta
Canada

Stantec Team Members

The people featured in our photographs are only a few of the many dedicated staff who make up Stantec's "One Team."

Page 8
Members of Stantec Leadership
Back row, left to right: Carl Clayton, senior vice president and corporate practice area unit leader, Transportation; Eric Nielson, senior vice president and regional operating unit leader, US West; Jeff Kishel, senior vice president and corporate practice area unit leader, Environment; Tony Franceschini, president and chief executive officer
Front row, left to right: Don Wilson, senior vice president and chief financial officer; Stanis Smith, senior vice president and corporate practice area unit leader, Buildings; Bob Gomes, senior vice president and corporate practice area unit leader, Industrial & Project Management; Mark Jackson, senior vice president and chief operating officer; Tino DiManno, senior vice president and regional operating unit leader, Canada

Pages 8 and 9 (Bottom)
Staff in the Field and Office
Left to right: Gwendolyn Weeks, environmental scientist, Environmental Management; Susan Needham, human resources assistant, Human Resources; Alan Gee, manager, Human Resources; Crystal Kerr, team lead, Marketing Resources; Kim Gregoire, marketing manager, Marketing Resources; Deanna Kwong, project administrator, Marketing Resources; Luis De La Torre, survey field assistant, Surveys/Geomatics

Page 10
Big Horn Wind Project
Left group:
Left to right: Tam Ho, transmission line designer, Energy & Resources; Rick Steinke, electrical engineering manager, Energy & Resources
Right group:
Back row, left to right: Andrew Milner, design engineer, Energy & Resources; Tom Wier, senior project engineer, Energy & Resources
Front row, left to right: Ray Matar, senior project engineer, Energy & Resources; Jerry Joy, senior project engineer, Energy & Resources; Deanna Gerome, senior designer/CAD supervisor, Energy & Resources; Marie Mahaffey, senior project engineer, Energy & Resources

Page 14
Truliant Federal Credit Union, Mendenhall Branch
Left to right: Randy Pool, managing principal, Buildings Engineering; Steve Lineback, project manager, Urban Land Engineering; George Sanborn, project manager, Buildings Engineering; Dan Gunnoe, project manager, Surveys/Geomatics; Allyson Bucek, administrative assistant, Buildings Engineering; Pete Avetta, director of architecture, Architecture; Mili Mulic, director of design, Architecture; Rick Gross, senior mechanical designer, Buildings Engineering; Holly Hodge, interior designer, Architecture; Jerry Craver, electrical designer, Buildings Engineering; Danny Reagan, managing senior associate, Buildings Engineering; David Goodson, mechanical engineer, Buildings Engineering; Paige Smith, architect, Architecture

Page 16
Winnipeg International Airport New Terminal Building
Left to right: Blair McCarry, principal, Concepts group; Kerr Lammie, associate, Architecture; Stanis Smith, executive principal, Architecture; David Essex, project manager, Architecture; John Petersmeyer, principal, Architecture

Page 18
Stallings Stream and Wetlands Project
Left to right: Melissa Ruiz, environmental scientist, Environmental Management; Brad Fairley, managing senior associate, Environmental Management; Chris Myers, CAD technician, Environmental Management; Amber Coleman, soil scientist, Environmental Management

Page 20
Steam Turbine Generator
Left to right: Izzat Taha, engineering designer, Energy & Resources; Jon Longworth, project engineer, Energy & Resources; George Ison, lead mechanical designer, Energy & Resources; Tony Zavanelli, principal, Energy & Resources

Page 22
U.S. Route 201 Reconstruction
Left to right: Greg Edwards, project manager, Transportation; Tom Knight, project engineer, Transportation; George Bogue, senior structural engineer, Transportation; Deron Barnes, senior design technician, Transportation

Page 24
Charlie Kellogg and Joe Zaher Sports Complex
Cary Baird, managing senior associate, Planning & Landscape Architecture

Page 26
Tsunami Relief
Top to bottom: Gloria Gerber, associate, waste management engineer, Environmental Management; Saeed Soltani, project manager, Environmental Infrastructure; Michael Johnson, principal, International

This annual report was printed on 100% postconsumer recycled paper certified by the *Forest Stewardship Council (FSC). The FSC paper was manufactured entirely using wind-generated electricity, and the report was printed using environmentally friendly vegetable-based inks.

*The FSC program recognizes paper products that are made with high percentages of postconsumer reclaimed materials.

FSC Recycled
Product group from well-managed forests and recycled wood or fiber
www.fsc.org Cert no. SCS-COC-00867
© 1996 Forest Stewardship Council
100%

Stantec

Local Offices by Region

Canada

Calgary, Alberta
Edmonton, Alberta
Lethbridge, Alberta
Red Deer, Alberta
Abbotsford, British Columbia
Kamloops, British Columbia
Kelowna, British Columbia
Surrey, British Columbia
Vancouver, British Columbia
Victoria, British Columbia
Winnipeg, Manitoba
Aberfoyle, Ontario
Guelph, Ontario
Hamilton, Ontario
Kitchener, Ontario
London, Ontario
Markham, Ontario
Mississauga, Ontario
Ottawa, Ontario
Toronto, Ontario
Windsor, Ontario
Regina, Saskatchewan
Saskatoon, Saskatchewan

Caribbean

St. Michael, Barbados
Guaynabo, Puerto Rico

US West

Flagstaff, Arizona
Phoenix, Arizona
Tucson, Arizona
Bakersfield, California
Irvine, California
Los Angeles, California
San Francisco, California
Modesto, California
Moreno Valley, California
Oakland, California
Ontario, California
Palm Desert, California
Sacramento, California
San Diego, California
San Marcos, California
Walnut Creek, California
Colorado Springs, Colorado
Denver, Colorado
Fort Collins, Colorado
Las Vegas, Nevada
Reno, Nevada
Portland, Oregon
Irving, Texas
Salt Lake City, Utah
Seattle, Washington

US East

Port Charlotte, Florida
Sarasota, Florida
St. Cloud, Florida
Atlanta, Georgia
Macon, Georgia
Portland, Maine
Presque Isle, Maine
Boston, Massachusetts
Northampton, Massachusetts
Westford, Massachusetts
Manchester, New Hampshire
Ann Arbor, Michigan
Lawrenceville, New Jersey
Albany, New York
Binghamton, New York
Buffalo, New York
Melville, New York
Newburgh, New York
Rochester, New York
Charlotte, North Carolina
Raleigh, North Carolina
Winston-Salem, North Carolina
Charleston, South Carolina
Nashville, Tennessee
North Springfield, Vermont
South Burlington, Vermont
Richmond, Virginia

stantec.com

Printed in Canada.